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Consumer

Bankers

Association

1991 Automobile Finance Study

An

analysis

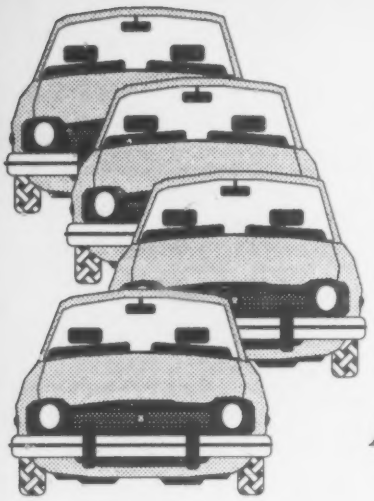
of the

December 1990

Survey

Conducted by the
Center for Financial Service Studies, McIntire School of Commerce, University of Virginia
Timothy R. Minkin, Principal Researcher and Assistant Professor of Commerce

CBA CONSUMER BANKERS ASSOCIATION



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The Consumer Bankers Association was founded in 1919 to provide a progressive voice for the retail banking industry. CBA represents approximately 800 federally insured banks and thrift institutions that hold more than 80 percent of all consumer deposits, and more than 70 percent of all consumer credit held by federally insured depository institutions.

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INTRODUCTION

The 1990 Automobile Leasing and Financing survey was distributed to over 600 Consumer Bankers Association member institutions, including commercial banks, thrifts, and credit unions. The response rate this year decreased to 125 respondents, from 135 in 1989. The primary reason for this decrease is due to consolidation in the banking industry, but the situation in the savings and loan industry, and the increasing number of bank failures is also contributing to the reduced number of responses. In addition, several financial institutions are exiting from the auto financing business altogether. Many organizations remain, however, that are very successful in auto financing. It is hoped that this survey report will be of use in providing both normative data for individual organization comparisons, as well as for the identification of trends that may affect the entire auto financing industry.

While reading this report and examining the graphics, there are several issues to keep in mind. First, the numbers that are presented are averages for the item being discussed. In cases where extreme deviations from the average existed, those responses were deleted from the analysis to provide the most representative results. Second, the response rate varied greatly from question to question, and even within different parts of the same questions, and some questions permitted more than one response. For these reasons, in some cases totals do not add up to exactly 100% and numbers may vary slightly in different sections of the report. This is not an error, but is a reflection of the data as collected. Third, when conducting a survey it is always best, but not always possible, to have a random sample to ensure a normal distribution of responses. While this report may not be representative of the total U.S. automobile financing market, it accurately reflects the responses of CBA participants.

Several new items were included this year; some were modified slightly and some were deleted. Most of the changes have resulted in more accurate and useful responses. Throughout this report, an effort has been made to highlight meaningful differences that may exist across institution size and region. The survey results will again be broken down into four geographic regions, where regional differences exist. The size dimension will utilize a measure of portfolio size for each of the leasing, lending, and floorplanning sections, where size differences exist. When examining responses that generated few significant differences, only overall results will be discussed in the text.

Background

Total automobile sales in 1990 were down for the second consecutive year, reflecting higher automotive prices, consumer saturation, and concerns about the economy. Total light vehicle sales in the United States declined 4.8% to 13,842,338 cars and light trucks.[1] The sale of new cars fell further than sales of trucks--a decline of 5.2% verses 4.0%, respectively.[2]

Of the United States Big Three auto makers, General Motors was the only one to report a loss in 1990, $2 billion in 1990 compared to profits of $4.2 billion in 1989.[3] The reported loss was due to a $2.1 billion write-off which GM took in the third quarter of 1990 to close four idle assembly plants and to close or consolidate at least five other plants over the next several years. Although Ford reported profits of $860 million and Chrysler reported $68 million in profits, both companies' earnings were down considerably when compared to 1989, with declines of 77% and 81%, respectively.[4]

Production of autos in 1990 was the lowest in the United States since 1982, with the number of cars down 11.05% and trucks down 11.37%.[5] The Big Three dropped production a combined 16.52%, to 4.76 million vehicles from 5.70 million vehicles in 1989. At the same time, transplant manufacturers increased production 16.14%, to 1.32 million vehicles from 1.13 million vehicles.[6]

GM was number one in 1990 in the United States in market share at 35.5%, and was the only one of the Big Three to increase market share, from 35.0% in 1989.[7] Ford lost market share of .6% and Chrysler lost market share of 1.5%.[8] The Japanese producers were the big winners in the United States with a market share increase for cars of 2.3% and for trucks of 1.2%.[9] Toyota led the Japanese with a 1.1% increase, followed by Honda with a .8% increase.[10]

Overseas, United States car manufacturers fared better than in their home country. GM earned a profit of $2.4 billion while Ford earned $116 million.[11] The financing arms of the Big Three auto markers also contributed to the bottom line, with much of the profit coming from older loans. GMAC, GM's financing unit, reported near-record earnings while Ford's financing unit earned $761 million--an increase of 15.3% over 1989.[12]

In addition, this year was the busiest for auto makers in Washington D.C. since the Carter Administration. A tough clean air act passed; the CAFE proposal was defeated by the greatest margin ever; a new side impact standard was adopted; Congress put a new tax on luxury cars, and the gas guzzler levy was doubled.[13]

Overall, there was a decrease in the total volume of auto loans for 1990. The captive financing arms experienced a decrease in the amount of total loans financed, while banks and other financial institutions increased the amount they have in auto loans. The number of automobile leases continued to increase throughout the year as more consumers decided to finance their purchases with leasing instead of the more conventional loan.

Geographic Breakdown

In order to provide the most useful data for meaningful comparisons, respondents were asked to provide information about where they conducted auto finance business. When organizations selected more than one region, they were categorized by the location of their corporate headquarters. The geographic breakdown is presented below in Table 1:

Table 1

Geographic Background

West (W)	AK, AZ, CA, CO, HI, ID, MT, MN, NV, OR, UT, WA, WY
Midwest (MW)	IA, IL, IN, KS, KY, MI, MN, MO, ND, NE, OH, SD, WI, WV
Northeast (NE)	CT, DE, MA, MD, ME, NH, NJ, NY, PA, RI, VT
South (S)	AL, AR, DC, FL, GA, LA, MS, NC, OK, SC, TN, TX, VA

Demographic Information

For the third consecutive year CBA members from the Northeast region generated the greatest number of responses. Table 2 presents respondents by institution asset size and geographic location:

Table 2

Respondent Asset Size and Location

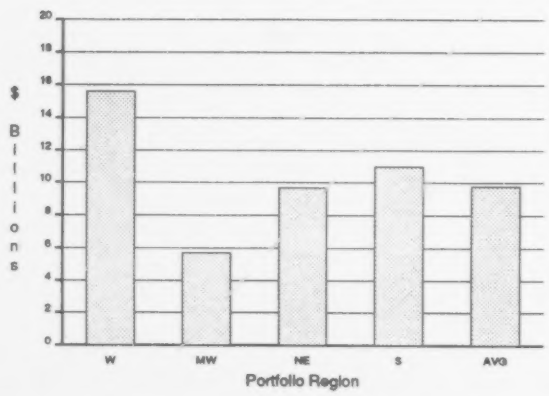
Region	Under $1B	$1B-5B	Over $5B	Total
West	4	8	8	20
Midwest	13	12	10	35
Northeast	4	17	15	36
South	5	16	13	34
Total	26	53	46	125

Respondent Asset Size

Of those responding, 21% were from institutions with assets of less that $1 billion, 42% have assets between $1 billion and $5 billion, and 37% have assets in excess of $5 billion. This year participation by the medium-size and larger institutions remained stable, with a reduction in the number of respondents from the smaller institutions. This again may reflect merger and acquisition activity taking place in the banking industry. Table 3 graphically presents respondents by asset size:

Table 3

Asset Size By Region

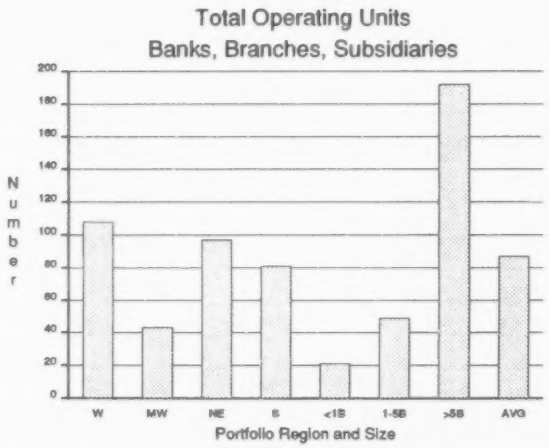


For the third consecutive year, respondents from the Western region had the highest average assets at $15.6 billion, up from $13.1 billion in 1989. The Midwest had the lowest average at $5.7 billion. The overall average was $9.8 billion, compared to $7.1 billion in 1989.

Operating Units

Another measure of institution size is the number of total operating units, including all banks, branches, and subsidiary units, presented in Table 4:

Table 4

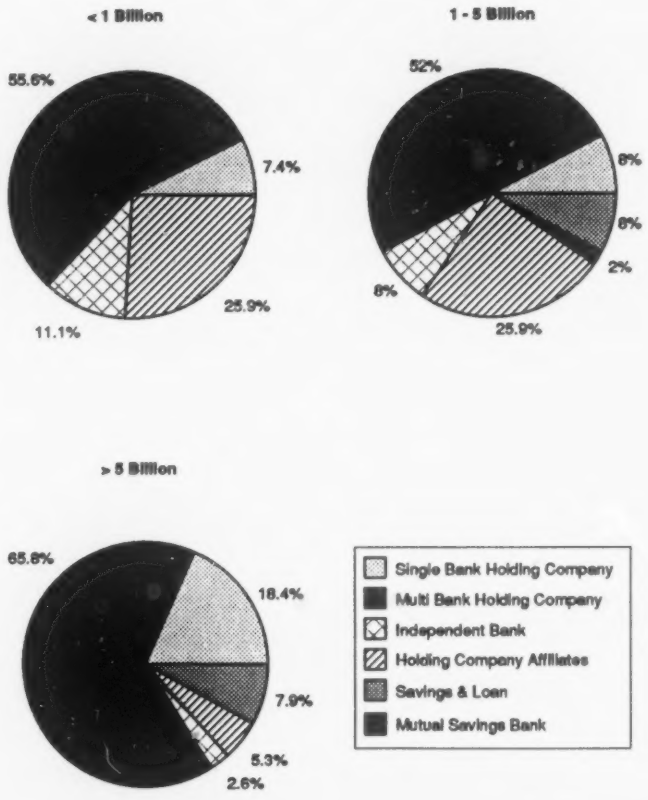


The average number of units is 87, compared to 71 in 1989 and 67 in 1988. The strong relationship between asset size and number of units is apparent.

There were six types of financial institutions represented in the sample, and these demonstrated major differences across institution asset size, as presented in Table 5 on the following page:

Table 5

Financial Institutions
By Asset Size



Types of Financial Institutions

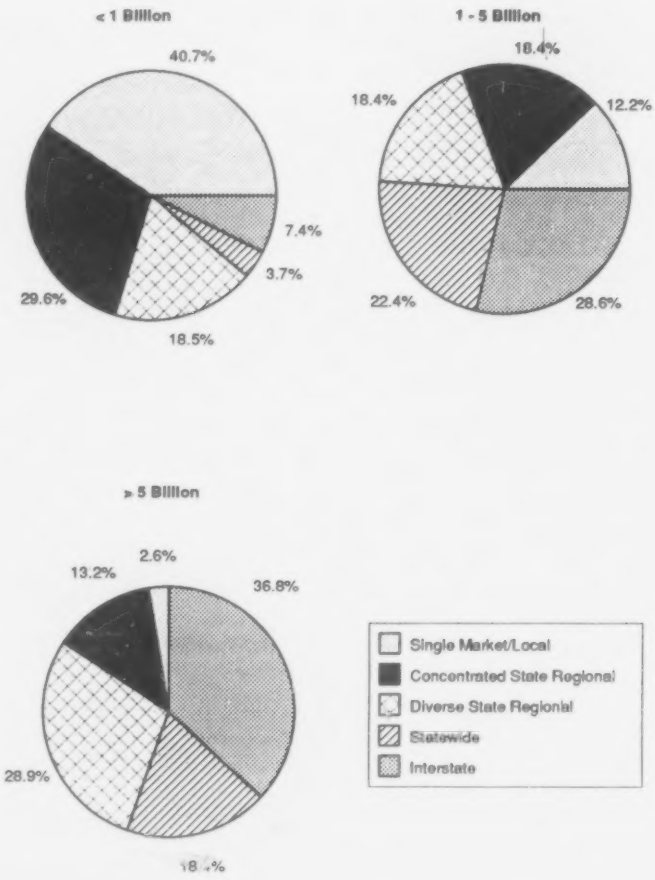
For the smaller institutions, there was a discernable shift in the type of institutions reported for 1990. In past years, the majority of those respondents were comprised of independent banks and savings and loans. This year, over 50% of respondents were categorized as multi-bank holding companies, with another 25% reported as affiliates of a multi-bank holding company. Medium-sized institutions were represented by six types of institutions, with multi-bank holding companies making up 52% of the sample. Institutions with assets in excess of $5 billion demonstrated similar characteristics, with over 70% of respondents reported as multi-bank holding companies or their affiliates.

Geographic Distribution

The geographic distribution of automobile financing business varied considerably by asset size and is presented in Table 6:

Table 6

Financial Institutions
By Geographic Distribution



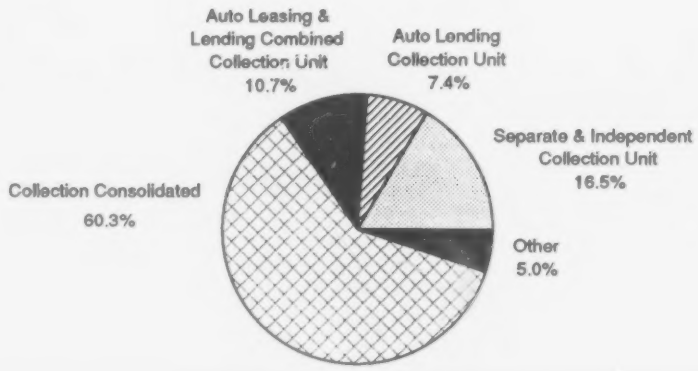
The vast majority of smaller institutions were single market/local or concentrated state regional, while medium-size institutions demonstrated even geographic distribution. The larger institutions tended to be distributed as diverse state regional or interstate.

Collection Activity

The collection activity may have an impact on cash flow and the overall profitability of the organizations. There was a large variety in the way the collection function was structured, with the majority of institutions reporting collections consolidated with other consumer collections, as shown in Table 7:

Table 7

Collection Activity


Auto Leasing & Lending Combined Collection Unit 10.7%
Auto Lending Collection Unit 7.4%
Separate & Independent Collection Unit 16.5%
Other 5.0%
Collection Consolidated 60.3%

Organizational Performance

For the third consecutive year, this year's survey included the performance measures return on assets and return on equity, which are presented in Tables 8 and 9:

Table 8

Return on Assets

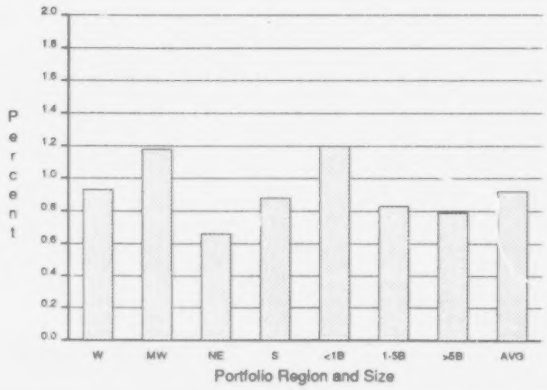
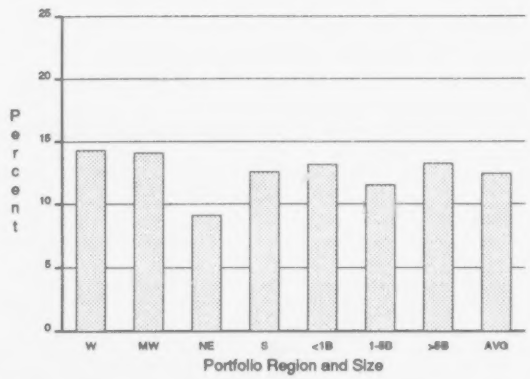


Table 9

Return on Equity



The overall average ROA was .92%, and varied from a high of 1.18% in the Midwest to a low of .66% in the Northeast. The overall average ROE was 12.46%, with a high of 14.32% in the West and a low of 9.10% in the Northeast.

Auto Portfolios

To assist in gaining a sense of perspective and to examine the relationship between asset size and portfolio size, respondents were asked to report the size of their total lending, leasing, and floorplanning portfolios. This information is provided in Tables 10, 11, and 12:

Table 10

Total Auto Loan Portfolio

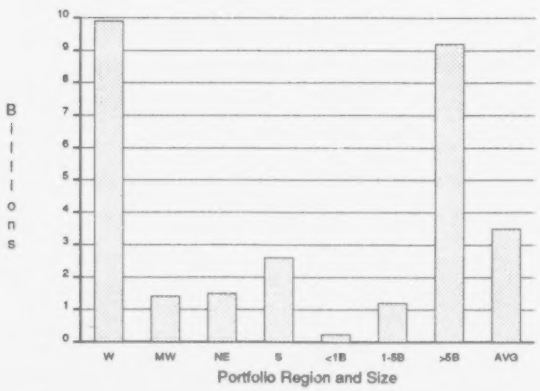


Table 11

Total Auto Lease Portfolio

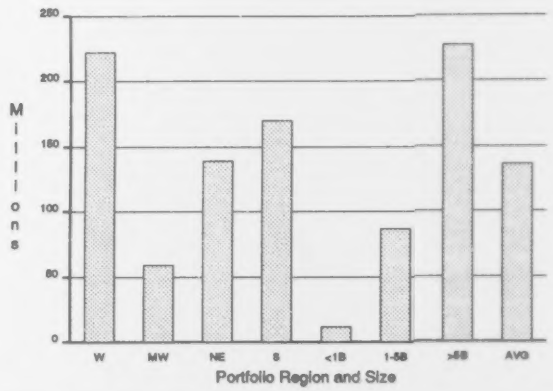
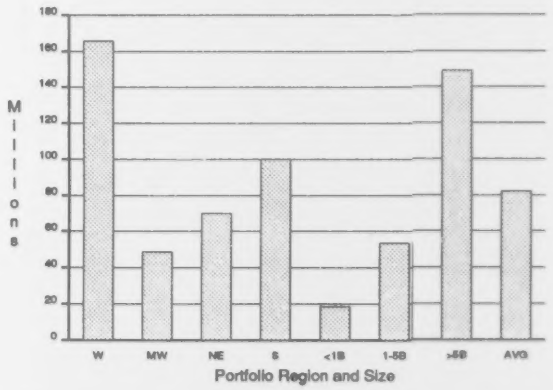


Table 12

Total Auto Floorplan Portfolio

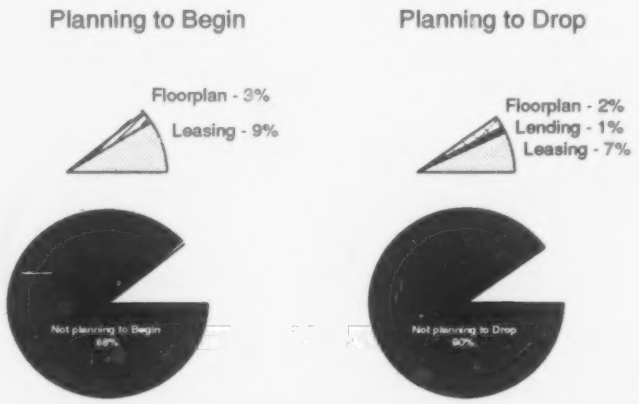


Clearly, the financial institutions from the Western region have the largest portfolios in all three categories. It is also evident that as institutions increase in asset size, their portfolios also increase.

Future Plans

With the turmoil taking place in the banking industry, it may be useful to attempt to anticipate changes before they occur. This year respondents were asked if they were planning any major changes in their auto portfolios in 1991. The responses to this question are provide in Table 13:

Table 13



The vast majority of respondents anticipate no major changes for 1991, although almost 10% of respondents are planning to begin a leasing program in 1991, while 7% are planning to get out of leasing. These numbers may not seem extremely high; however, these data suggest that while leasing is an attractive alternative to conventional financing for some organizations, it requires a somewhat different approach than does financing.

The following sections include a discussion of leasing, lending, and floorplanning, respectively. The information is provided to enable meaningful comparisons to be made between your associates and competitors. Where important trends appear to be emerging, they will be highlighted in the text and/or a graphic illustration.

Endnotes

1. Kathy Johnson, "Sales Fall Below 14 Million," Automotive News, January 7, 1991, p. 1.

2. Ibid., p. 1.

3. Phil Frame and Kathy Johnson, "GM Posts Only Big 3 Loss in '90," Automotive News, February 18, 1991, p. 2.

4. Ibid., p. 1.

5. Anne Wright, "Production Plummets 11%; Lowest Output Since 1983," Automotive News, January 7, 1991, p. 1.

6. Ibid., p. 1.

7. Johnson, p. 1.

8. Ibid., p. 1.

9. Ibid., p. 1.

10. Ibid., p. 1.

11. Frame and Johnson, p. 2.

12. Ibid., p. 2.

13. John Teahen Jr., "The 1990 Rundown," Automotive News Insight, January 7, 1991.

AUTOMOBILE LEASING

With the phasing out of the tax deduction for interest on consumer loans as part of the Tax Reform Act of 1986, leasing of automobiles to the buying public has continued to increase, although much of this growth has come at the expense of conventional financing. Leasing an automobile is not a good decision for all new car buyers, but it can prove to be a good decision for those who wish to reduce their monthly payments and drive a new car every few years.

Since the system of leasing is relatively new to many financial institutions, inexperience has caused some problems. Many customers who took out 60 month leases in the 1980's are 'upside down' in their leased automobiles and are upset with both dealers and financial institutions.[1] It is also much more difficult to accurately predict residual values so far into the future. Recognizing these problems, many lessors are now offering 24 and 36 month leases more frequently.[2]

However, the shorter lease length results in higher monthly payments and increases the likelihood of customers not being able to pay on time. In 1990 the number of customers who voluntarily returned automobiles increased as did the number of repossessions of leased cars.[3]

As in the indirect loan market, indirect leasing is being phased out by many of the larger banks who wish only to deal directly with the customer. Citicorp told auto dealers in November that they will not offer financing for vehicles they lease to customers through dealerships any longer. This decision stems from Citicorp's greater interest in dealing directly with the customer.[4] Many existing lessors and new entrants into auto leasing are offering both direct and indirect leasing, however.

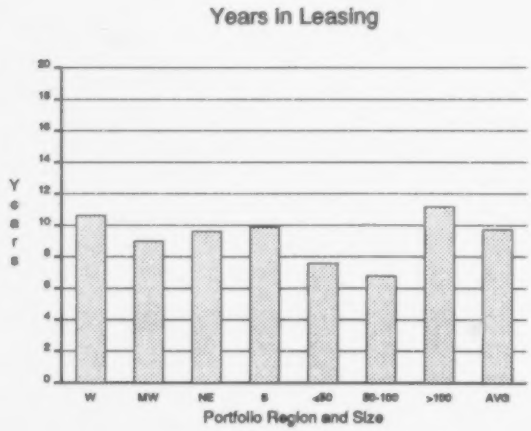
Overall, the amount of leasing increased in 1990, to over $31 billion. The captive finance companies have become very aggressive in marketing leases in an attempt to bolster car sales. Chrysler Financial tripled leasing volume over 1989 and leasing now comprises 20% of the retail finance business for GMAC, up from 7% last year.[5] GMAC was the nation's largest financing company for auto leases, with over $7 billion of its $103 billion in assets related to that sector.[6]

In January of 1990 it was predicted that leasing would grow at a rate of 1% to 2% yearly through the end of this century.[7] It would now appear that that prediction may be a bit conservative.

Automobile Leasing

A total of 61 survey repondents offered leasing in 1990, the same number as in 1989. The overall percentage of total respondents offering leasing increased, however, to 49% from 45% the previous year. Table 14 provides a graphic illustration of the distribution of institutions offering leasing by the number of years in the business:

Table 14

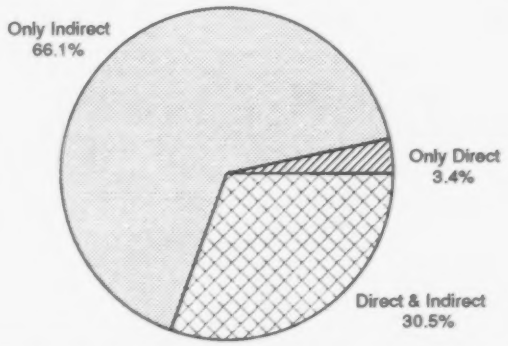


Respondents from the Western region and larger institutions have offered leasing for the greatest length of time. The overall average is 9.7 years.

Table 15 illustrates that the vast majority of responding institutions offered indirect leasing, as only 3.4% offered just direct leasing. Due to most institutions' heavy reliance on indirect activity, dealer relationships should be of vital interest to lessors.

Table 15

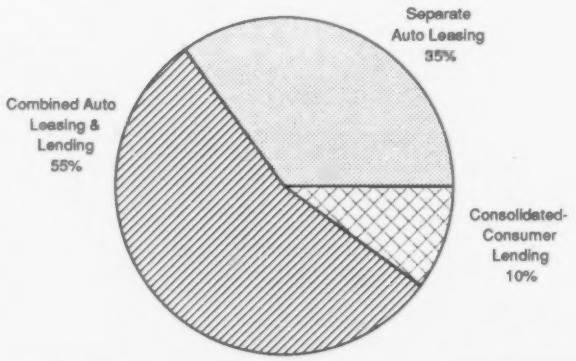
Leasing Arrangements



There are a variety of ways that financial institutions involved with leasing are organized, as shown in Table 16:

Table 16

Operation of Leasing Department



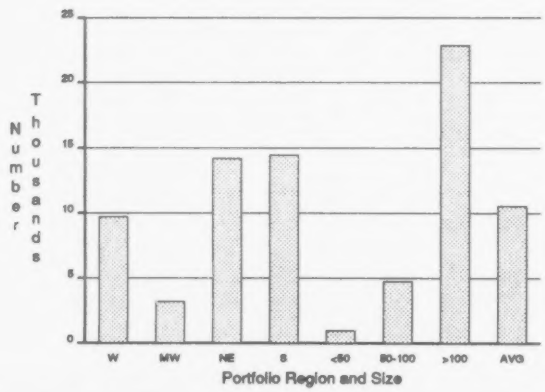
Approximately one-third of responding organizations have a separate leasing department; 55% combine leasing with lending, and 10% consolidate these functions into consumer lending.

Lease Portfolio

As previously mentioned, portfolio size rather than asset size was used to divide the respondents in this year's survey. In order to use a particular item to divide the sample, it must be reflective of the size of the lease portfolio, and have a very high response rate to maximize the number of institutions that can be included in the analyses. The measure used in this year's survey was the total lease portfolio. An attempt was made to divide the sample approximately into thirds, and also to identify naturally occurring break points in the average portfolio. As a result, the cutoff points were at $50 million and $100 million, with the smaller portfolios comprising 30% of the sample, the medium-sized portfolios 30%, and the larger portfolios 40%. Open-end leases were offered by only 15% of respondents, compared to 35% in 1989. Table 17 presents the average number of vehicles in the lease portfolio by region and institution size:

Table 17

Number of Outstanding Leases



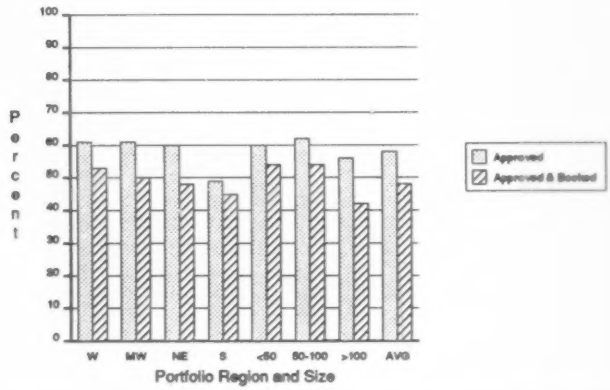
The overall average was 10,578 leases and there were significant differences across regions, with respondents from the South and Northeastern regions having the largest portfolios, at 14,444 and 14,188, respectively.

Lease Approval

In 1990 the average lease approval rate remained at 58%, while the percentage of leases booked increased from 47% to 48%. The average lease approval rate, as well as the percentage of leases booked, is presented in Table 18:

Table 18

Lease Approval

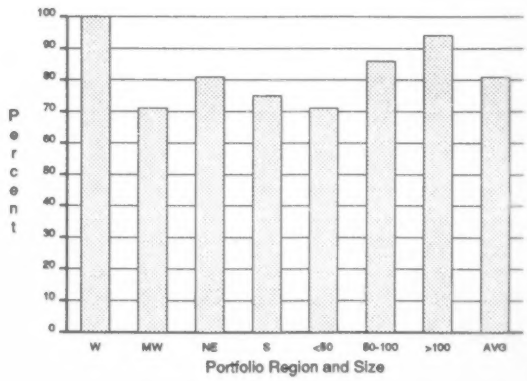


Lease approval rate varied little across region and portfolio size, although it does appear as if the larger institutions were slightly less successful at booking approved leases. The West had the greatest percentage of leases accepted and booked, at 61% and 53%, respectively. An analysis of the acceptance and booking rates and the volume of applications from various dealerships could be conducted to enable management to identify those for whom an organization is a primary lessor.

The use of a lease acquisition fee decreased slightly in 1990, to 81% from 89% in 1989. There were some regional and size differences in the utilization of this fee, as shown in Table 19:

Table 19

Acquisition Fee



For the third consecutive year, all of the respondents from the West charged a lease acquisition fee. There is a clear pattern suggesting that smaller institutions are less likely to charge a fee. Of those respondents who charge an acquisition fee, 98% use a flat fee, which averaged $250, with a range from $50 to $450. All respondents required a security deposit, and 87% charged one month's rent, while the remainder charged a flat fee averaging $175.

This year's survey asked respondents to report the criteria that they were currently utilizing for lease approval decisions. There were many regional and size differences, and most institutions reported using multiple criteria. Tables 20 to 24 present the information regarding lease approval criteria:

Table 20

Applicant Equity

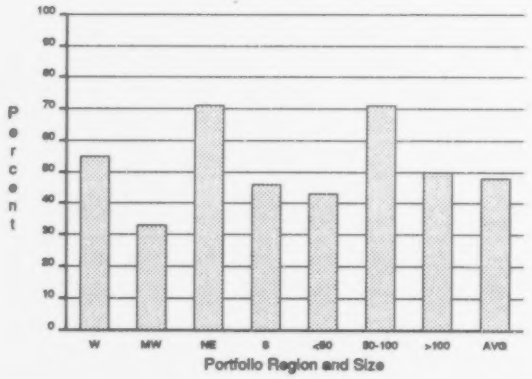


Table 21

Applicant Ability to Repay

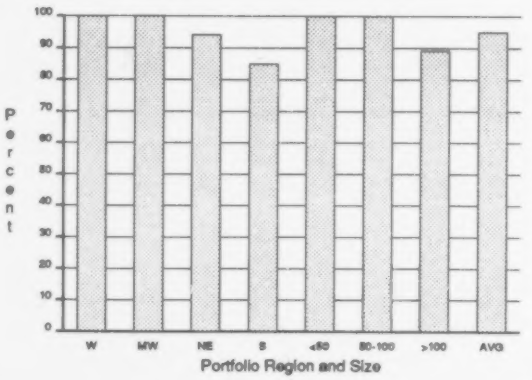


Table 22

Judgmental

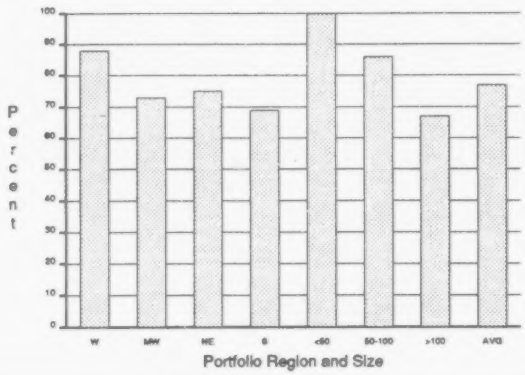


Table 23

Current/Past Credit History

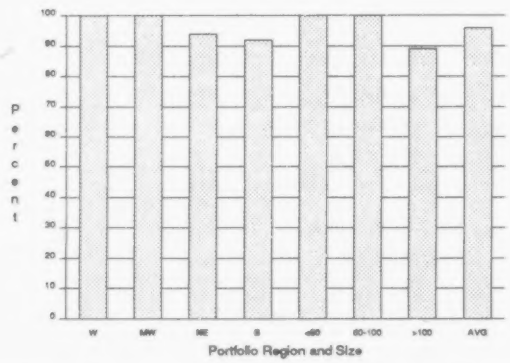
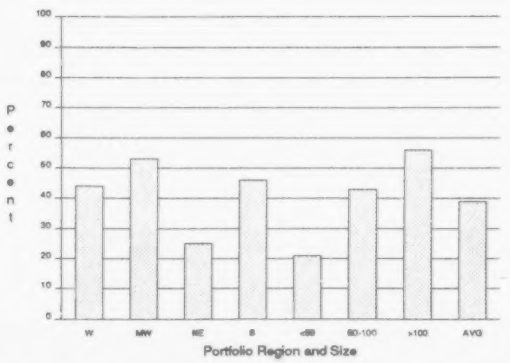


Table 24

Credit Scoring System

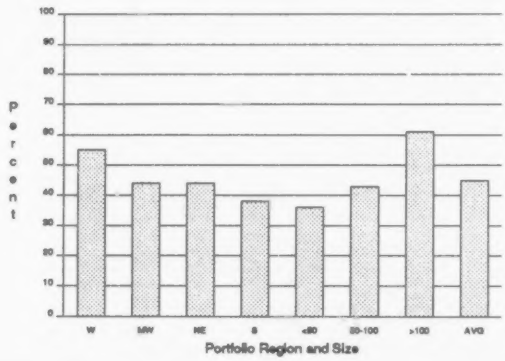


Applicant ability to repay and current/past credit history were the most commonly reported criteria, while credit scoring was reported least frequently. The use of credit scoring almost doubled in 1990, however, to 39% from 22% in 1989, and is used by 56% of the institutions with the larger portfolios.

The use of an automated credit processing system varied considerably across size and region, with an overall average of 45%, up from 25% in 1989. Over 60% of the larger institutions and 55% of those in the West utilized automated credit processing. Table 25 illustrates the distribution of responses:

Table 25

Automated Credit Processing



Of those using an automated credit processing system, questions were asked on this year's survey regarding specifics about the credit processing system. Table 26 reports the results for the overall sample:

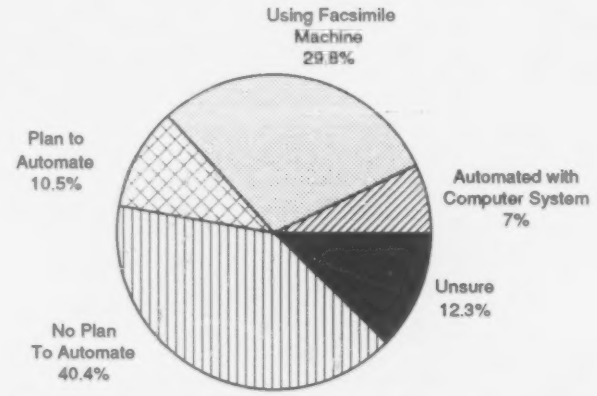
Table 26

Credit Processing System

0%	Computer Link with Dealers
43%	Automated Credit Bureau Interface
35%	Credit Scoring
24%	Queuing
6%	Document Preparation
37%	Letter Preparation
24%	Collections Interface
25%	Mainframe Interface

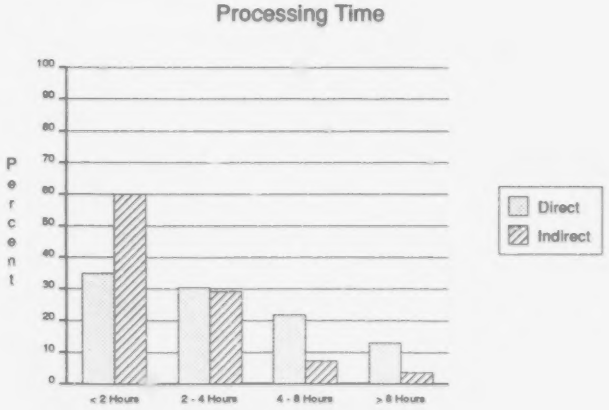
The use of an automated credit bureau interface was reported most commonly, followed by letter preparation and credit scoring. The degree to which respondents were automated or planned to automate their relationships with dealers was also assessed and is reflected in Table 27:

Table 27



Use of the facsimile machine increased almost 10% in 1990, but the majority of respondents apparently plan on continuing to use the telephone as their primary means of interacting with dealers. The average processing times from application to lease approval are presented in Table 28:

Table 28

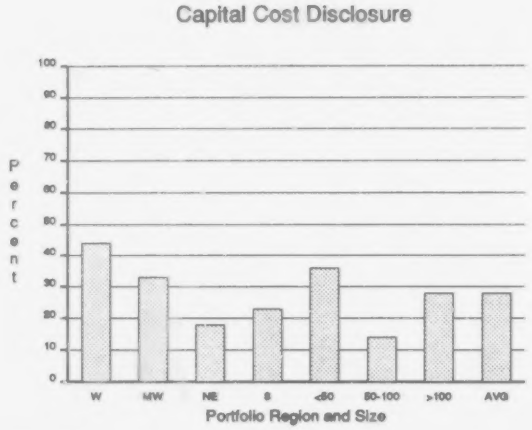


Almost 90% of respondents process indirect leases in less than 4 hours, while more than 10% take in excess of a full day to process direct leases.

Capital Cost

Disclosure requirements is an emerging consumer issue in most areas of consumer financing. In 1987 37% of respondents disclosed the capital costs of their leases, and that figure rose to 40% in 1988. In 1989, however, that figure declined to 24% and remained quite stable at 28% in 1990. There existed substantial regional differences in disclosure practices, as illustrated by Table 29:

Table 29



The percentage of institutions disclosing capital costs ranged from a low of 18% in the Northeast to a high of 44% in the West, the only region that reported a decrease in disclosure, from 75% in 1989.

Both the average maximum and average actual capitalized costs as a percentage of manufacturer's suggested retail price came down from 1989. The average maximum was 103% for domestic vehicles and 101% for imports, compared to 106% and 107% in 1989. The average actual captitalized cost was 96% and 98%, compared to 98% and 100% in 1989. Tables 30 and 31 present responses by region and size:

Table 30

Maximum Capitalized Cost

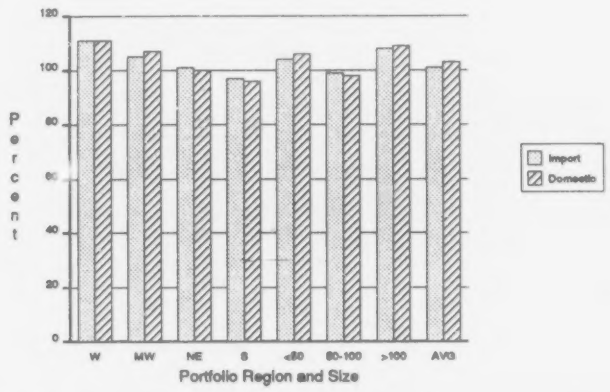
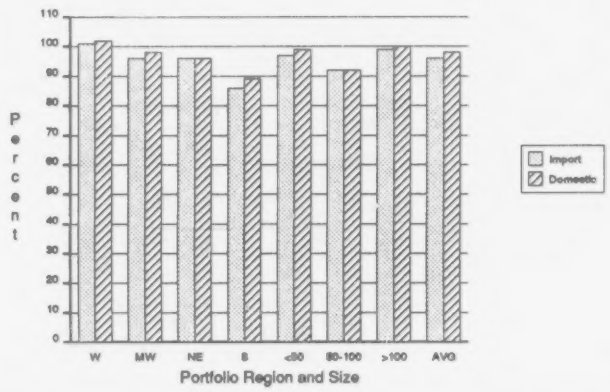


Table 31

Average Capitalized Cost

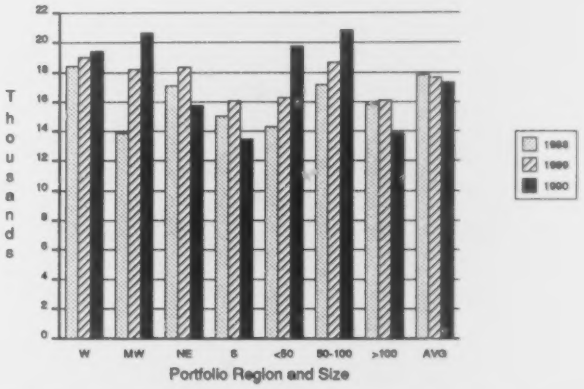


Those institutions in the Western region had both the highest average maximum and average actual capitalized costs, while the South reported the lowest for both categories. Overall maximum percentages reported were 120% for average maximum and 110% for average actual capitalized cost.

After several years of increased average capital cost of a leased vehicle, in the last three years the average capital cost has decreased slightly, from $17,836 in 1988 and $17,643 in 1989 to $17,603 in 1990. Leasing continues to be a desirable alternative at the high end of the car market, but less expensive cars are now being leased in greater numbers. Table 32 presents average capital cost by size and region for 1988, 1989, and 1990:

Table 32

Capitalized Cost



Regionally, the Midwest had a 1990 average in excess of $20,000, while the South had the lowest average at $13,466. The larger institutions appear to have done a larger volume of busines ith less expensive vehicles.

Over 90% of financial institutions offer the capitalization of fees and taxes. Institutions in the Western region tend to capitalize fees and taxes much less frequently than other regions of the country, with the exception of warranty packages. Warranty packages are the items most frequently capitalized, reported by 86% of respondents, while personal property tax is least frequently capitalized, at 17%. Some of the differences in these practices may reflect legal statutes specific to a given state or region. The fees and taxes are capitalized at various rates by region and portfolio size, as shown in Tables 33 to 37:

Table 33

Capitalized License Fees

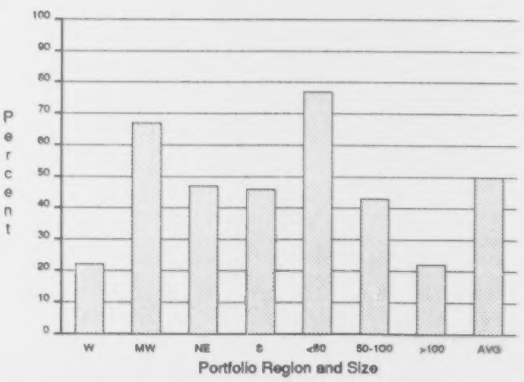


Table 34

Capitalized Personal Property Tax

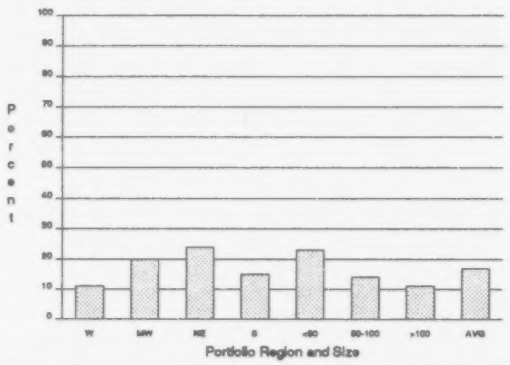


Table 35

Capitalized Registration Fee

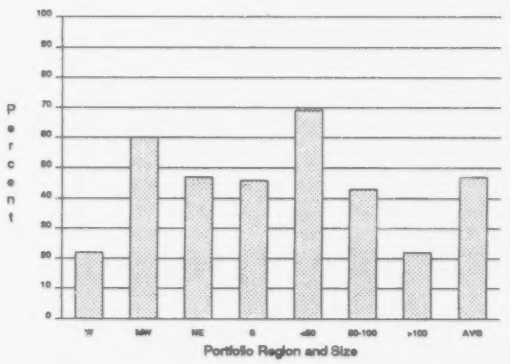


Table 36

Capitalized Sales Tax

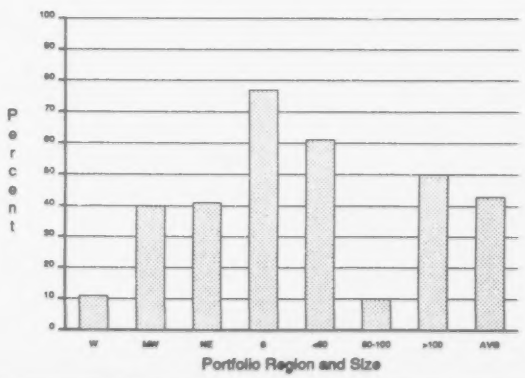
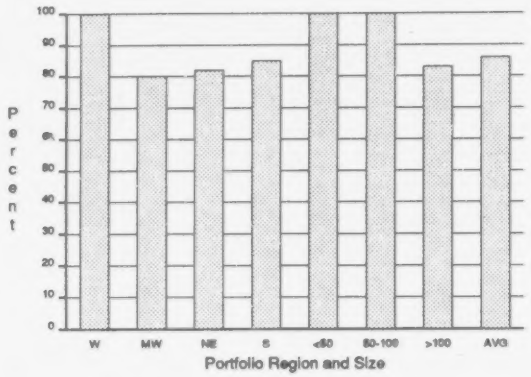


Table 37

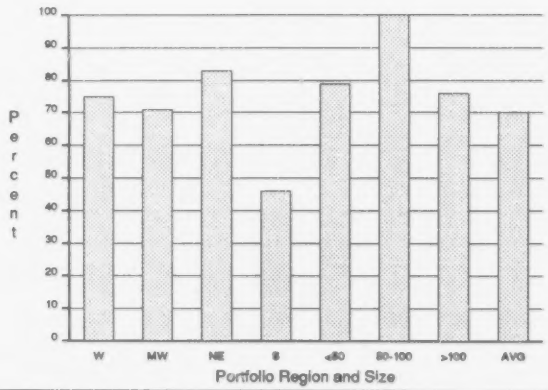
Capitalized Warranty Packages



The majority of institutions report that they place a cap on the amount of aftersell on a contract, as shown in Table 38:

Table 38

Aftersell Cap

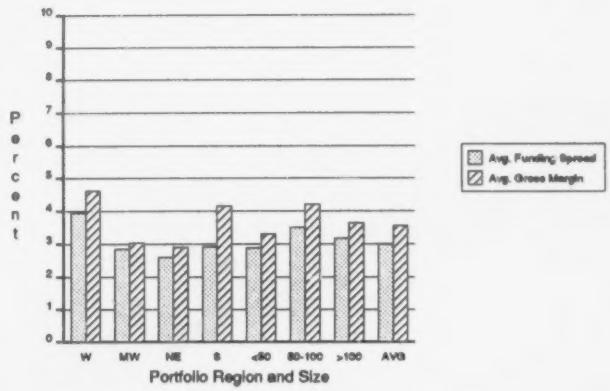


Leasing Activity

Respondents were asked to report their average funding spread and average gross margin for lease activity in 1990. The overall average was 2.99% for new cars and 3.55% for used cars. Results are presented in Table 39:

Table 39

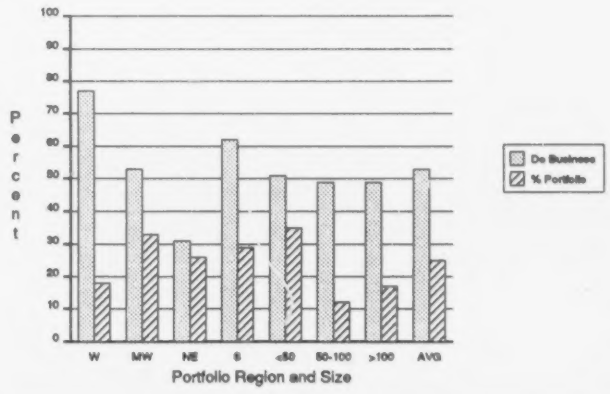
Lease Profitability



There are three basic sources of lease business for the financial institution: auto dealerships, lease brokers, and direct to the consumer. Over 96% of respondents conduct indirect business with dealerships, but the percentage that do business with lease brokers varies considerably by region and size, as shown in Table 40:

Table 40

Business With Lease Brokers



The majority of respondents from the Western , Southern, and Midwestern regions reported doing business with lease brokers, and the overall average was 53%, the same as in 1989. The percentage of the portfolio that was leased through a broker varied substantially by region, from a high of 33% in the Midwest to a low of 18% in the West. Institutions with smaller portfolios tend to do a larger portion of their business with lease brokers, averaging 35% of their portfolios. There were no other apparent size effects,

which is a change from 1989 when far fewer medium and larger institutions reported doing business with lease brokers.

Residual Value

As is highlighted in Table 41, the vast majority of respondents set residual values by using ALG, Black Book, Kelley, or similar publications, and 4% of leases had residual values above guide book limits, down from 16% in 1989:

Table 41

Method of Setting RES Values

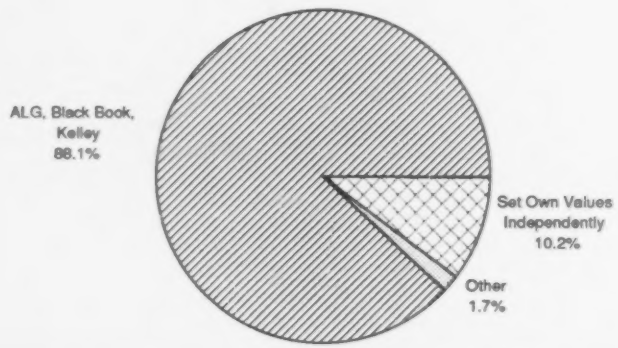
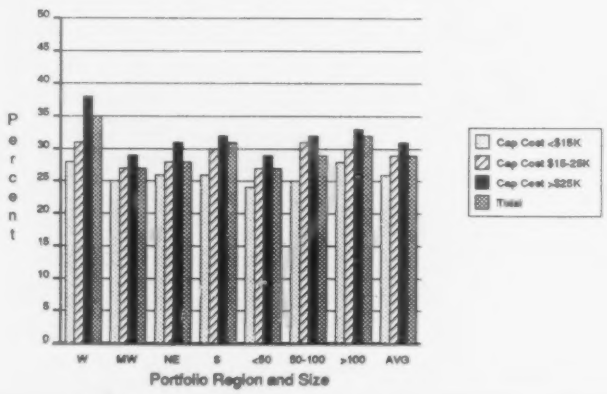


Table 42 presents the average residual value as a percentage of MSRP for vehicles in three different price ranges:

Table 42

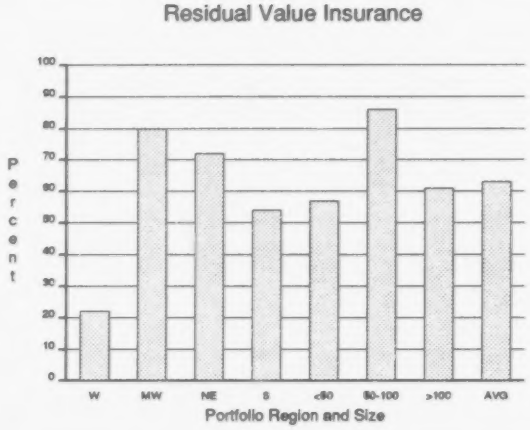
60 Month Lease Residual Value



Vehicles with a capital cost of less than $15,000 had an overall average residual value of 26%, while vehicles valued between $15,000 and $25,000 averaged 29% and vehicles over $25,000 averaged 31%. Institutions in the Western region and those with the larger portfolios appeared to be somewhat less conservative in predicting residual values. The overall average residual value for the entire portfolio was 29% of MSRP.

There was considerable variance in the use of residual value insurance, as shown in Table 43:

Table 43



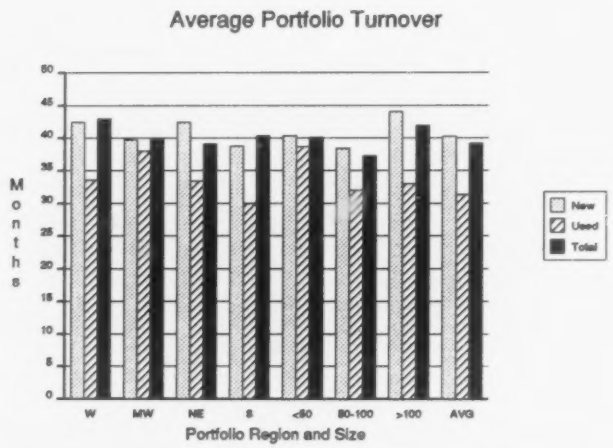
Overall, 63% of respondents insured residual value, and of these 36% purchased residual value insurance with deductibles. Respondents from the Western region were much less likely to purchase residual value insurance than those from other regions of the country. The average premium per lease was 1.29% of the residual value with a deductible, and 1.53% without. For the average respondent, a number of claims equal to 3.39% of the lease portfolio were submitted under residual value insurance policies in 1989 and the average claim amount was $1,236.

Claims submitted in 1990 under residual value insurance policies averaged 3.29% of the lease portfolio, with an average claim of $1,235. Leases that reached scheduled termination in 1990 where residual value insurance had applied averaged 5.09% of the portfolio.

Lease Termination

Average portfolio turnover for the total portfolio increased slightly, to 39.2 months in 1990 from 37.2 months in 1989. Portfolio turnover by region and size is presented in Table 44:

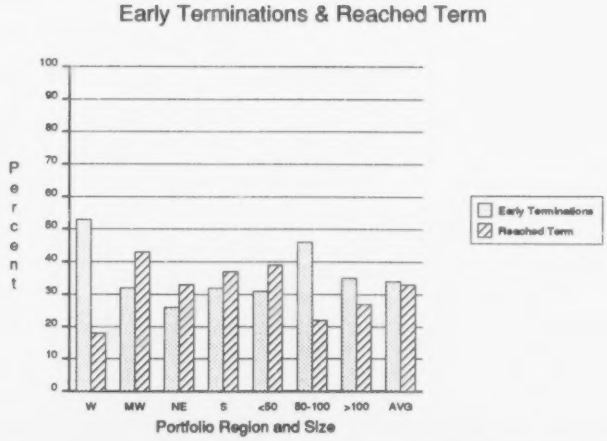
Table 44



The average portfolio turnover for new cars was 40.3 months and was 31.3 months for used cars.

In 1990, 34% of all leases terminated early, compared to 35% in 1989 and 30% in 1988. Only 1.18% of leases terminated before the first year. Table 45 presents a breakdown of leases that terminated early and those that reached term:

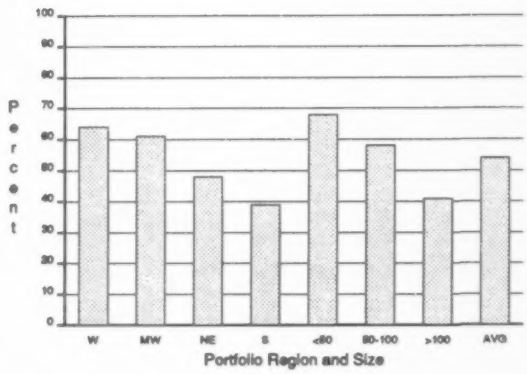
Table 45



Many consumers purchase their car at the end of a full term lease, as shown in Table 46:

Table 46

Full Term Lease Purchase

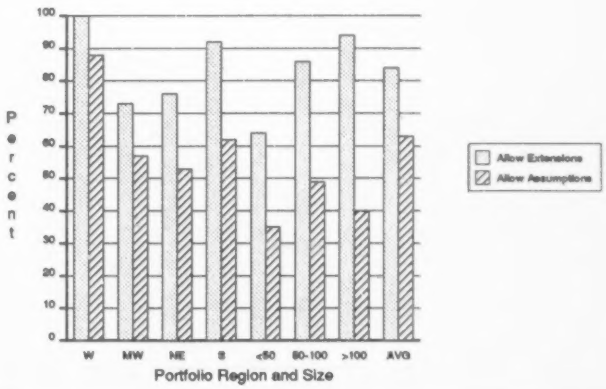


Two-thirds of respondents reported that they incurred losses upon the sale of full term leases, which averaged $563 per lease. The remaining one-third reported gains averaging $134.

The majority of lessors from all regions and of all sizes allow extensions of existing lease contracts beyond the original terms of the lease as well as third party assumptions. Those institutions with smaller portfolios tend to make these offerings less frequently, as shown in Table 47:

Table 47

Extensions & Third Party Assumptions

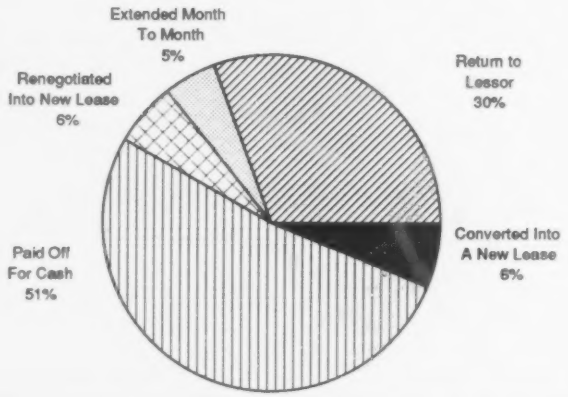


In 1990, 84% of respondents allowed extensions compared to 72% in 1989, while 63% allowed third-party assumptions, compared to 70% in 1989. 29% of third-party assumptions were converted into new lease contracts in 1990.

For leases that reach term, most are either paid off for cash or returned to the lessor, as shown in Table 48:

Table 48

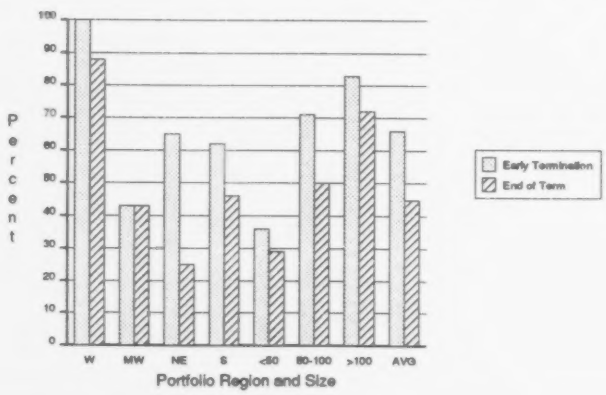
Leases That Reach Term


Extended Month To Month 5%
Renegotiated Into New Lease 6%
Return to Lessor 30%
Converted Into A New Lease 6%
Paid Off For Cash 51%

Many institutions apply a penalty fee for early termination and some apply an end-of-term fee when the lease matures. Use of these fees is presented below in Table 49:

Table 49

Early Termination & End of Term Fees

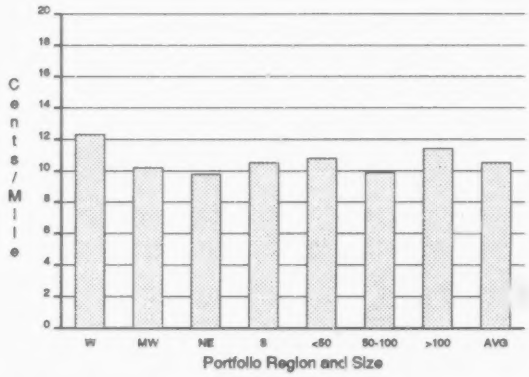


An early termination fee was applied by 66% of respondents, compared to 60% in 1989 and 55% in 1988. The fee averaged $225 and ranged from $25 to $450. An end-of-term fee was applied by 45% of respondents, compared to 37% in 1989 and 33% in 1988. It averaged $235 in 1990, with a range of $100 to $450. As is shown above, the Western institutions more commonly applied these fees, as do larger institutions. Use of both fees varies substantially by region and portfolio size.

The annual allowable mileage averaged 14,500 and ranged from 12,000 to 18,000 miles, with the majority of respondents allowing 15,000 miles per year. All institutions charge an excess mileage fee, which averaged 10.53 cents per mile and ranged from 5 cents to 25 cents per mile. The average amount charged for excess mileage is presented in Table 50:

Table 50

Amount Charged for Excess Mileage

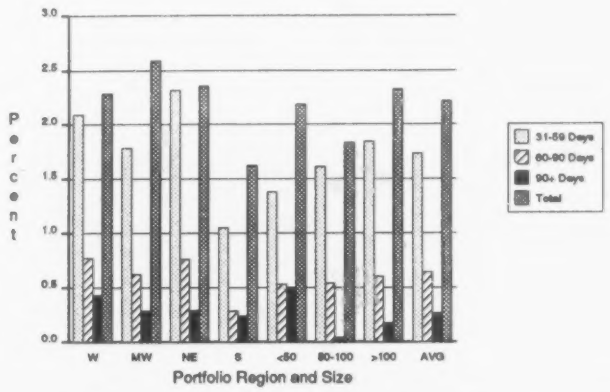


Delinquencies, Repossessions, & Losses

The average percentage of lease delinquencies as a percent of outstandings 31 to 59 days overdue for 1990 remained stable at 1.73%, compared to 1.74% in 1989 and 1.43% in 1988. The range was from .02% to 6.94%. For 60 to 89 days the average was .64% with a range of .07% to 2.50%, and .26% for over 90 days with a range of .03% to 1.17%. These figures were .42% for 60 to 89 days and .25% for over 90 days in 1989. The overall average for total delinquencies was 2.22% with a range from .05% to 7.0%. Delinquencies did vary somewhat by institution region and size, however, as presented in Table 51:

Table 51

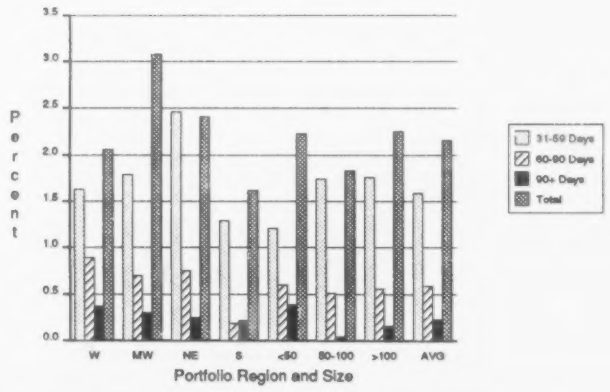
Delinquencies - Percent of Outstandings



Those institutions from the Midwest reported slightly higher delinquency rates at 2.59%. The Southern region had the lowest total delinquency rate at 1.62% of outstandings. Respondents were also asked to provide delinquency figures as a percentage of accounts. These figures largely mirror those above, and are provided in Table 52:

Table 52

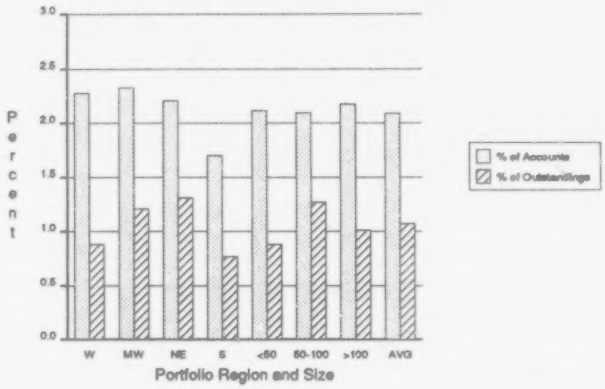
Delinquencies - Percent of Accounts



The number of automobile repossessions increased in 1990 to more than 1% of outstandings and 2% of accounts, as shown in Table 53:

Table 53

Repossessions

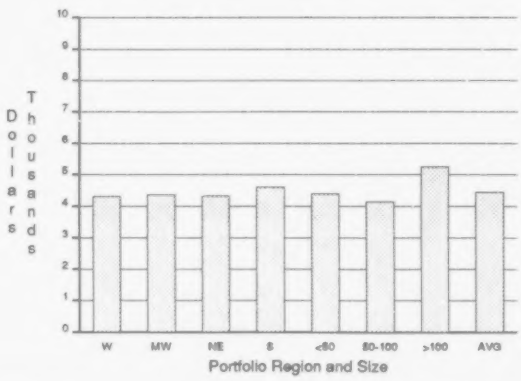


Repossessions resulted in an average loss of 1.07% of outstandings, up from .85% in 1989 and .62% in 1988. As a percent of accounts, repossessions increased to 2.09% from 1.86% in 1989. Both categories varied slightly by region and size. Repossessions were lowest in the South and for smaller lease portfolios.

Repossessions usually result in significant losses for the lessor. The average net credit loss per repossession was $4,457. Reported losses by region and portfolio size are presented in Table 54:

Table 54

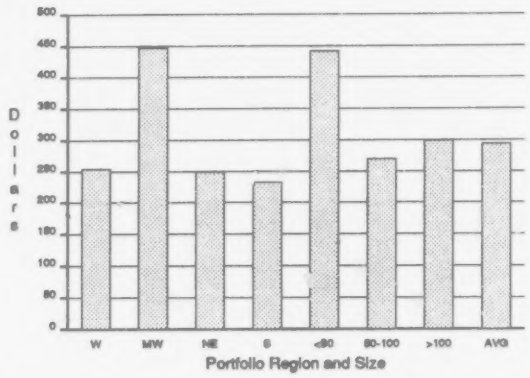
Average Repossession Net Credit Loss



There are substantial costs incurred in the actual recovery of a repossessed vehicle. This figure averaged $254, with a high of $447 in the Midwest to a low of $232 in the South. Responses by region are presented in Table 55.

Table 55

Average Cost to Repossess



Repossessed automobiles must be disposed of in some manner, and there are a variety of ways of doing so. Tables 56 to 59 present profiles of the percentage of respondents who utilized the different methods:

Table 56

Auction

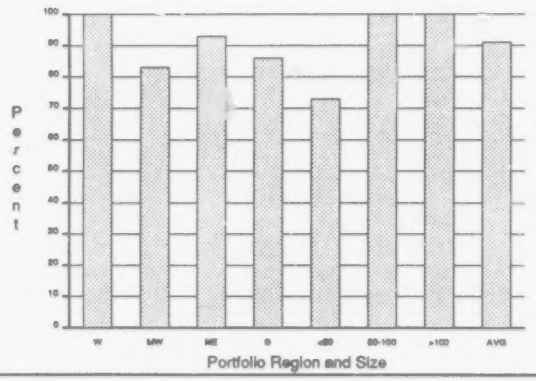


Table 57

Sale to Dealer

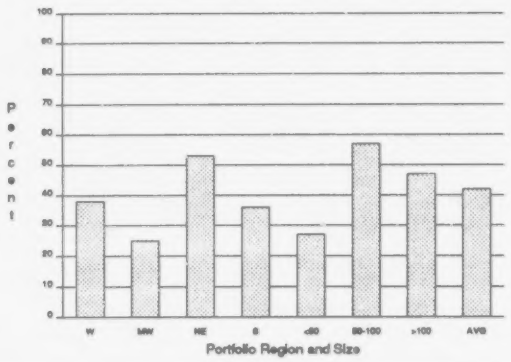


Table 58

Wholesale

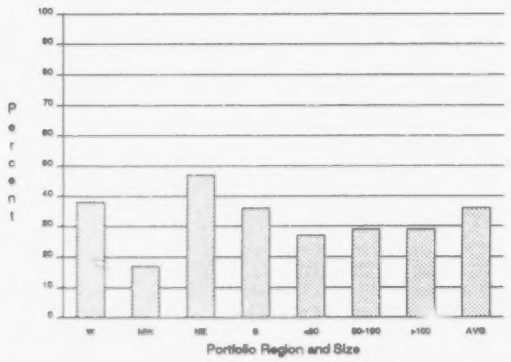
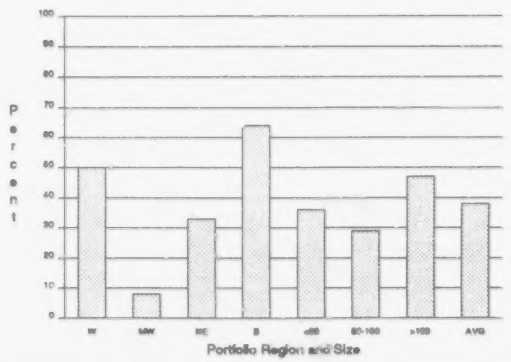


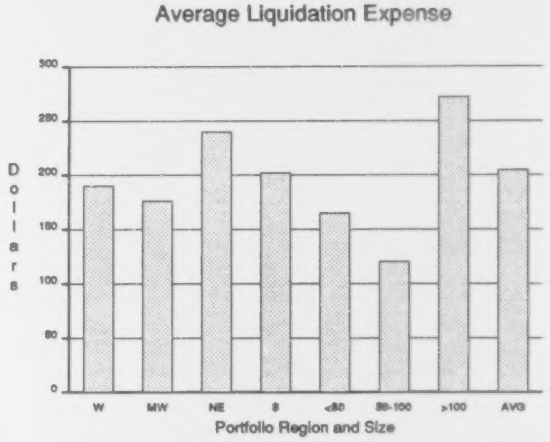
Table 59

Retail



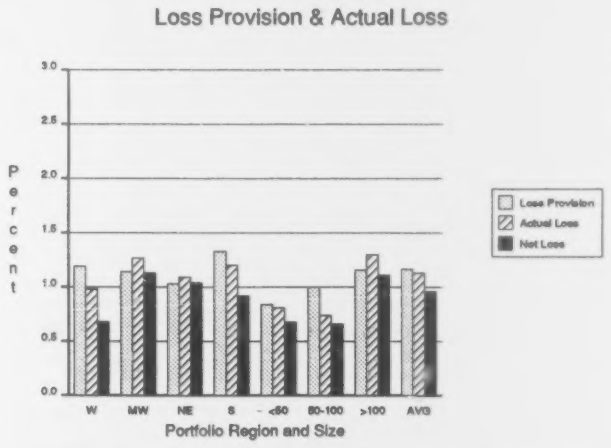
The average liquidation expense was $205, and expenses are presented by region and size in Table 60:

Table 60



The loss provisions remained stable in 1990, however, actual losses and net losses after recoveries increased slightly compared to 1989, and are shown in Table 61:

Table 61

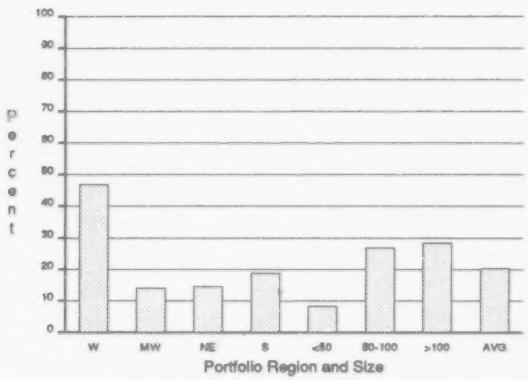


There were no significant region or size differences among respondents. The overall average loss provision was 1.17% of average net outstandings, compared to 1.14% in 1989 and 1.09% in 1988. The range was .25% to 3.30%. Reported losses averaged 1.13% compared to .94% in 1989 and .86% in 1988, and ranged from .11% to 3.03%. Net loss after recoveries averaged .96%, up from .70% in 1989, with a range from .05% to 2.81%.

The average annual percentage of gross recoveries to gross losses was 20.4%, compared to 18.5% in 1989. These varied substantially by region and size, as presented in Table 62:

Table 62

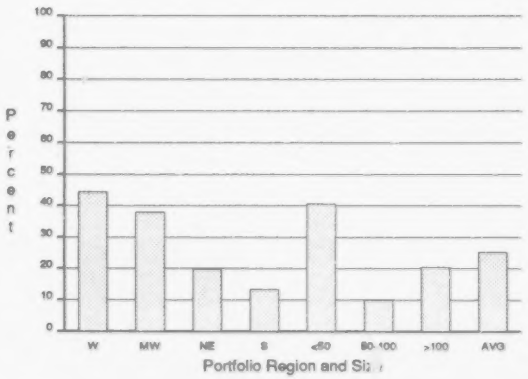
Gross Recoveries to Gross Losses



An average of 25.2% of gross charge-offs were the result of bankruptcies, compared to 26.3% in 1989. Responses are presented in Table 63:

Table 63

Bankruptcy Gross Charge-Offs



Conclusion

Since the change in the tax laws in 1986, there has been substantial growth in the leasing market. Much of this growth has come at the expense of conventional financing. Five years ago, the typical lessee was a relatively affluent consumer who leased a vehicle at the upper end of the market. As financial institutions and the captive finance companies have become more aggressive with their leasing offerings, a different type of consumer is being attracted into leasing which may have an effect on increasing delinquencies and repossessions. In addition, many leases are structured to minimize the up-front costs for the lessee. This practice, however, also results in the lessee having no significant investment in the automobile. In the tough economic conditions of 1990, it is not surprising that repossessions increased.

Growth in demand for leasing is predicted to last for many years, and more financial institutions are being attracted to leasing. There are advantages to both the consumer as well as the lessor; however, leasing is very different from conventional financing, and must be understood as such. Accurate prediction of residual values will be a major factor affecting success in this industry. Shorter leases reduce risks for lessors, yet increase monthly payments of lessees. Institutions must have a good understanding of both their products and their markets to compete successfully with the captives and produce a profit. Some interesting information from this year's survey includes the following:

- Fewer respondents are offering open-end leases.
- The average lease approval rate remained stable at 58%.
- Reported use of credit scoring almost doubled in 1990, to 39%.
- 90% of respondents process indirect leases in under 4 hours.
- Maximum and average capitalized cost as percent of MSRP declined.
- Overall average residual value was 29% of MSRP.
- Average portfolio turnover was 39.2 months.
- Less than 35% of all leases terminated early.
- Delinquencies remained stable in 1990.
- There was a slight increase in repossessions in 1990.
- The average net credit loss per repossession was $4,457.

Endnotes

1. Dick Biggs, "Lease Lies, Unethical Tactics are Backfiring," Automotive News, April 23, 1990, p. 301.

2. Ibid., p. 301.

3. Ellen Braitman, "Car Repossessions by Banks Shifted to Overdrive in '90," American Banker, March 12, 1991, p. 1.

4. Fred Bleakley, "Citicorp Tells Auto Dealers It Will Stop Providing Financing for Leasing Vehicles," The Wall Street Journal, November 19, 1990, p. C21.

5. Joseph B. White, "Auto Makers Sing the Praises of Leasing," Wall Street Journal, April 10, 1991, p. B1.

6. Ibid., p. C21.

7. Charles Thomas, "Lease Industry Braces For Change," Automobile News, January 10, 1990, p. 44.

AUTOMOBILE FINANCING

Through the decade of the 1980's, indirect loans became an increasingly large portion of the auto loan portfolio, demonstrated by average loan portfolios comprised of 76% indirect loans in the 1989 CBA survey, 72% in 1988, and 69% in 1987. Many lenders are changing automobile loan policy in the 1990's. Presently many large commercial banks are attempting to redirect their focus away from the indirect auto lending market through dealers to direct auto lending to customers. As banks come to realize the power of customer recognition for the service, this trend should continue to increase.

However, credit policies are tightening up. The number of direct consumer loans that have gone sour has increased, as well as, the number of captive financing loans which are delinquent.[1] Consumers are loaded with debt while regulators are pressuring banks to tighten up lending practices. In 1990 banks were reluctant to finance more than the dealer invoice price of cars whereas two years ago they would finance 10-15% above this price.[2] In addition, down payment requirements have remained stable. These two factors have resulted in a decrease in the size of the average loan. Customers with marginal credit or those who owe more on their current vehicle than it is worth are having trouble receiving automobile loans. Approval rate percentages have declined as a result.[3]

The portion of loans being financed through the captive finance companies declined in 1990; however, competition is growing fierce. Two of the financing arms, GMAC and Ford, switched to a tiered loan system in the fall of 1990 which matches financing rates to consumer credit risks.[4] This has led the financing arms to be more competitive with the local banks. Competition also increased in 1990 from captives, as manufacturers tried to counter the effect of excess production capacity in the auto industry by relying more heavily on incentive financing.[5]

The lenders who are staying in the loan market are actively recruiting car buyers directly. Bank America Corp., a subsidiary of Bank of America, started a program in 1990 called Car Power. This program, similar to the Auto Facts program offered by many credit unions around the nation, provides shoppers with a listing of discounted auto prices as well as discounts on service and information on financing.[6] They are promoting the program with an entire marketing plan including direct mail and radio.

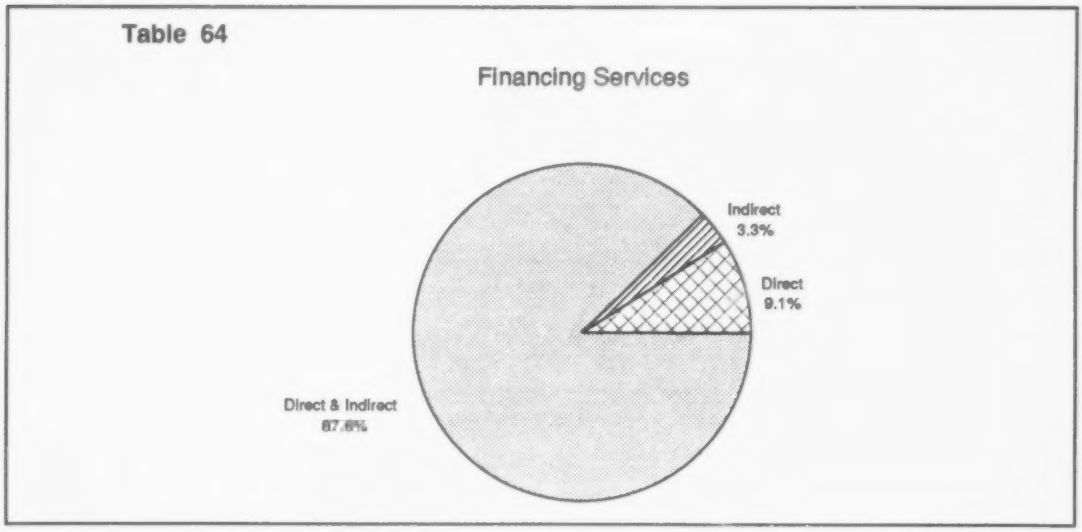
Auto lending was the largest category of consumer installment credit, with over $285 billion in total car loans in 1990, a slight decrease in the total volume from 1989. Commercial banks, however, saw an increase in 1990 to $126 billion, resulting in a 44% market share of total auto loans, while the captives experienced a decrease in the total volume of automobile loans. This is the second consecutive year that commercial banks have increased their market share.

Automobile Lending

All 125 respondents to this year's survey were involved in automobile lending. The average number of years in the lending business was 30, with a range from 2 to 90 years, and 85% of respondents have been in auto lending for more than 20 years.

Table 64 illustrates that the vast majority of responding institutions offered both direct and indirect financing, as only 9.1% offered just direct and 3.3% offered just indirect lending.

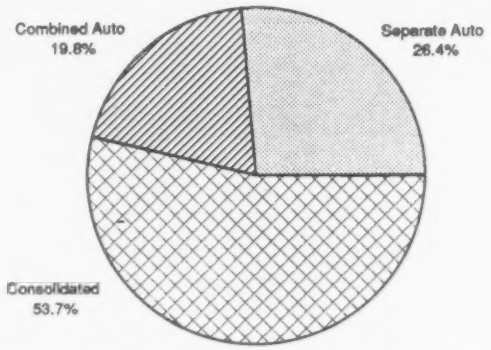
Table 64



There are a variety of ways that financial institutions involved with lending are organized, as shown in Table 65:

Table 65

Separate Lending Department



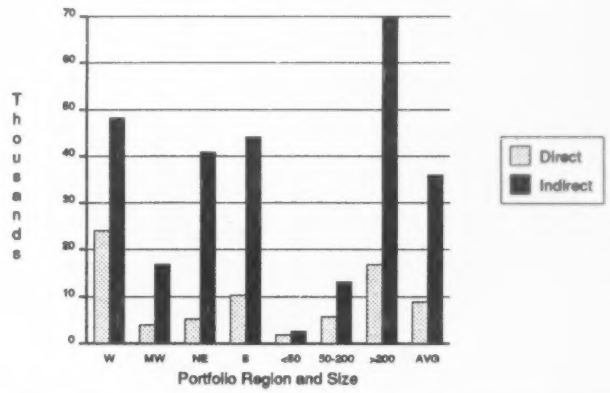
Over one-half of responding organizations consolidate the auto financing function with other forms of consumer lending, while about one-fourth have a separate lending department. This breakdown has changed very little since 1988.

Loan Portfolio

As previously mentioned, portfolio size rather than asset size was used to divide the respondents in this year's survey. The measure used was the total financing portfolio of outstandings. An attempt was made to divide the sample approximately into thirds, and also to identify naturally occurring break points in the average portfolio. As a result, the cutoff points were at $100 million and $500 million, with the smaller portfolios comprising 33% of the sample, the medium-sized portfolios 44%, and the larger portfolios 22%. Table 66 presents the number of outstanding loans by region and portfolio size:

Table 66

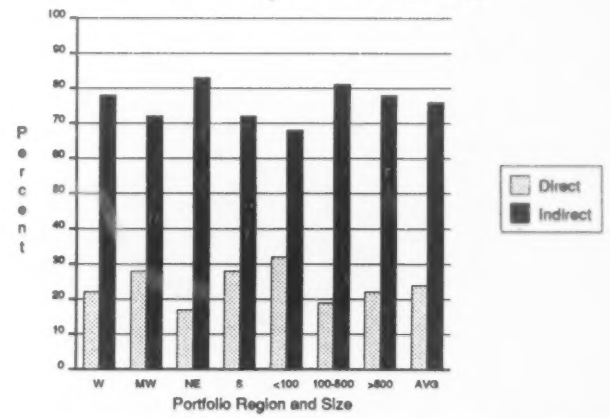
Number of Outstanding Loans



The average portfolio consisted of 8926 direct loans and 35,883 indirect loans. The loan portfolio of most institutions, however, consisted primarily of indirect loans, as shown by the percentage of direct loans in the average portfolio in Table 67:

Table 67

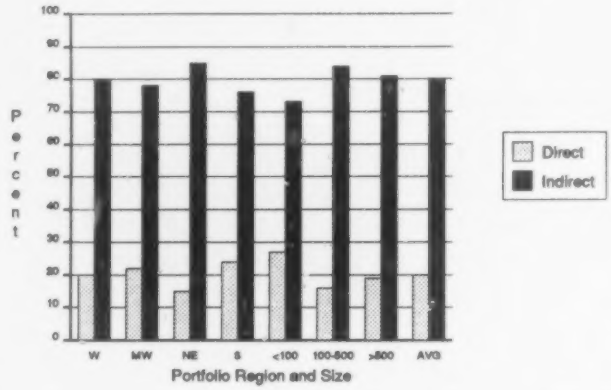
Portfolio Mix by Number of Vehicles



The overall average percentage of the number of direct loans in the portfolio remained stable in 1990 at 24%, following decreases from 28% in 1988 and 31% in 1987. This year, the percentage of dollar volume in direct loans was also computed and is shown in Table 68. Direct loans comprised only 20% of the dollar volume in the average portfolio. As shown in the previous table, the smaller institutions tend to have a larger percentage of their business in direct lending relative to the larger institutions. Regionally, the Northeast had the greatest proportion of indirect loans.

Table 68

Portfolio Mix by Dollar Volume



Loan Approval

In 1990 the direct loan approval rate remained at 61%, the same level as in 1989. The indirect approval rate fell to 47%, from 51% in 1989. There was a 14% difference in approval rates for the two types of loans, and an even greater difference in the percentage of loan applications that resulted in booked loans. For indirect loans, only 35% of those submitted resulted in providing a loan, while 52% of direct loan applications resulted in loans. There were also some differences across institution region, but little difference across size, as shown in Tables 69 and 70:

Table 69

Direct Loan Approval

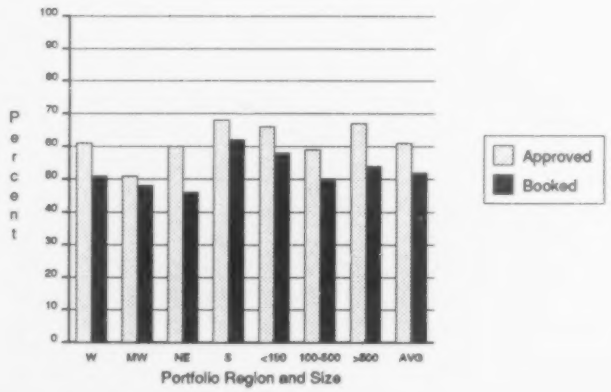
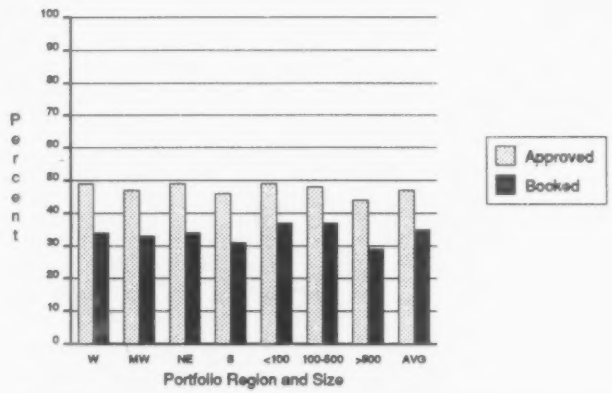


Table 70

Indirect Loan Approval

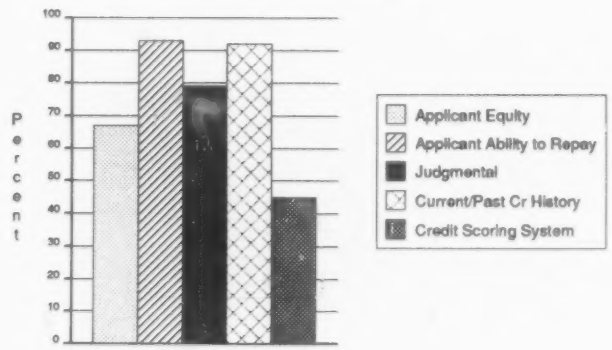


For direct loans, the South had by far the highest approval and booking rates. These differences were not evident for indirect loans. An analysis of the acceptance and booking rates and the volume of applications from various dealerships could provide useful information for managers.

This year's survey asked respondents to report the criteria that they were currently utilizing for loan approval decisions. There were few regional or size differences, and most institutions reported using multiple criteria. Table 71 reports the results from this question:

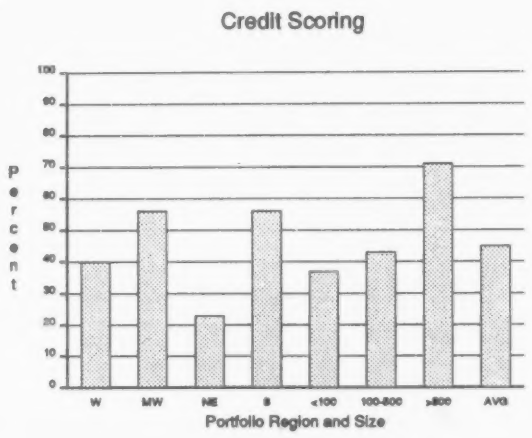
Table 71

Loan Approval Criteria



Applicant ability to repay and current/past credit history were the most commonly reported criteria, while credit scoring was reported least frequently. The use of credit scoring was reported by 45% of respondents in 1990, however, compared to 33% in 1989. There were significant regional and size differences reported as well, as shown in Table 72:

Table 72

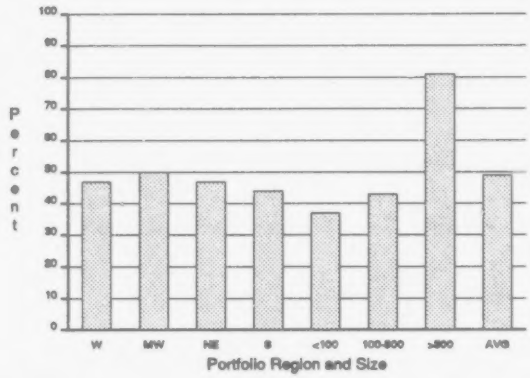


Regionally, institutions from the Midwest and South used credit scoring most frequently, while it was used by only 23% of respondents from the Northeast. Almost three-fourths of respondents with larger loan portfolios used credit scoring, while it was used by just over one-third of those with smaller portfolios.

The use of an automated credit processing system varied considerably across region and size, with an overall average of 49%, up from 42% in 1989. Over 80% of the larger institutions utilized automated credit processing. Table 73 illustrates the distribution:

Table 73

Automated Credit Processing



Of those using an automated credit processing system, questions were asked on this year's survey regarding specifics about the credit processing system. Table 74 reports the results:

Table 74

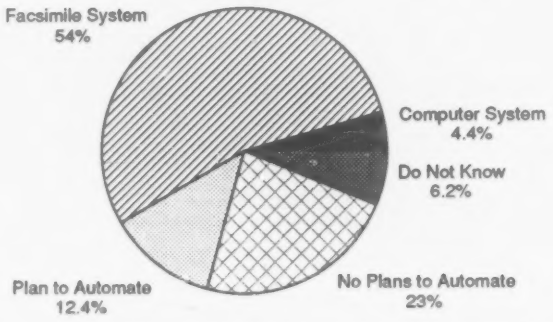
Credit Processing System

2%	Computer Link with Dealers
86%	Automated Credit Bureau Interface
63%	Credit Scoring
53%	Queuing
31%	Document Preparation
78%	Letter Preparation
29%	Collections Interface
51%	Mainframe Interface

Only 2% have a direct computer link with dealers while over 80% of respondents reported having an automated credit bureau interface. The degree to which respondents were automated or planned to automate their relationships with dealers was also assessed and is reflected in Table 75:

Table 75

Presently Automated



The use of the facsimile machine increased from 35% in 1989 to 54% in 1990. Many respondents apparently plan on continuing to use the telephone as their primary means of interacting with dealers.

The average processing time from application-to-loan decision results are presented in Tables 76 and 77:

Table 76

Direct Average Processing Time

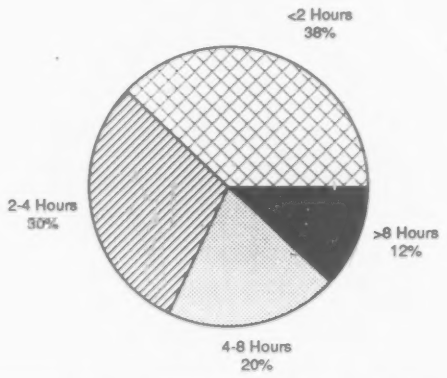
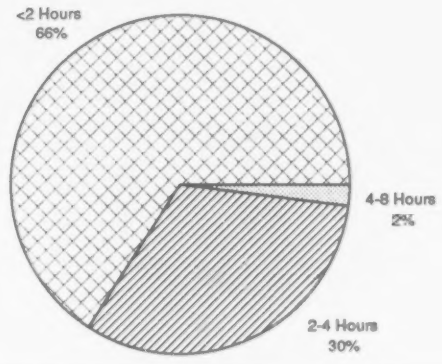


Table 77

Indirect Average Processing Time



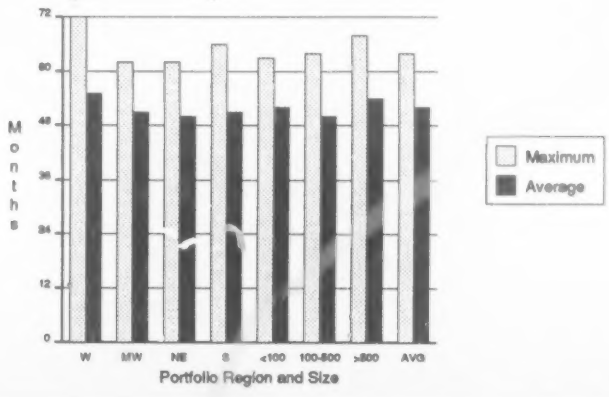
Almost all respondents process indirect loan applications in less than 4 hours, while just over two-thirds match that time for direct loans. Over 10% of respondents reported that direct loan approval took more than one day.

Lending Offerings

The length of a loan can have a significant impact on the consumer's monthly payment but, with a minimal downpayment, it may also result in a situation where the consumer has negative equity in the vehicle. Maximum and average loan maturities for new cars are presented in Table 78:

Table 78

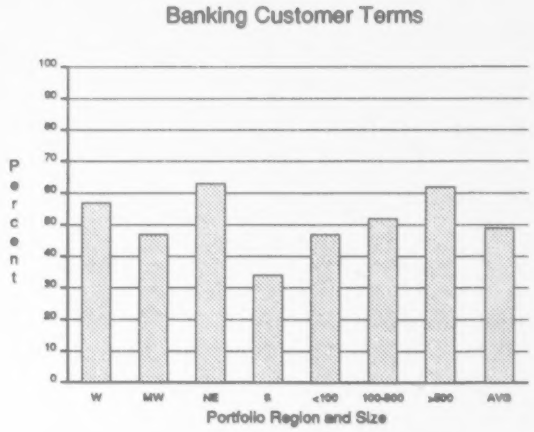
Loan Maturity



The overall average maximum maturity for new loans in 1990 was 64 months, with a range from 48 to 84 months. The average maturity was 52 months, with a range from 38 to 60 months. These numbers have remained very stable over the last three years. The required downpayment averaged 15% of the sales price, up from 13% in 1989. The minimum required downpayment reported was 5% of selling price.

Cross-selling of services continues to be an important issue to many financial institutions and, in an attempt to assess the degree to which this activity is utilized, respondents were asked if they offered different terms and conditions on loans to current bank customers. The results are presented in Table 79:

Table 79



The overall average was 49%, up from 42% in 1989. The Northeastern and Western regions led the way with 63% and 56%, respectively. It appears that as loan portfolio size increases, lending institutions are more likely to offer more favorable terms to current customers.

There are a variety of pricing/accounting methods being utilized by lending institutions. The percentages of institutions offering the various methods are presented in Tables 80 and 81:

Table 80

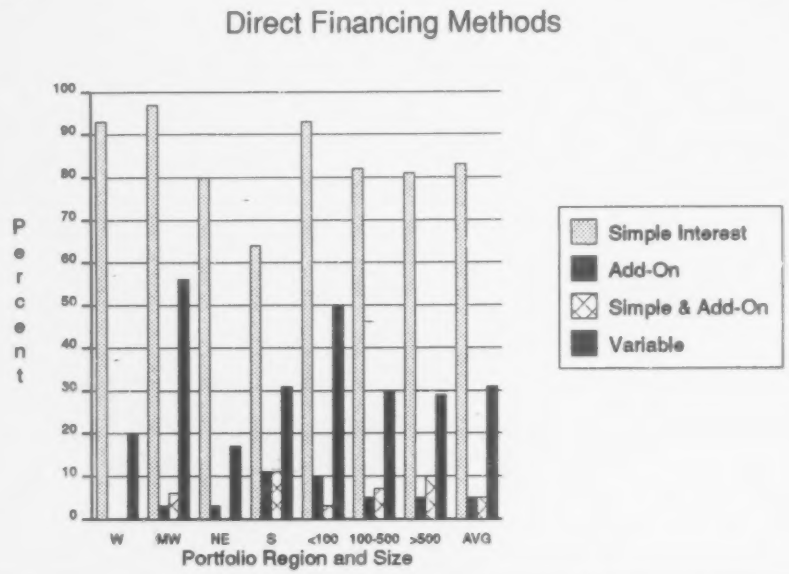
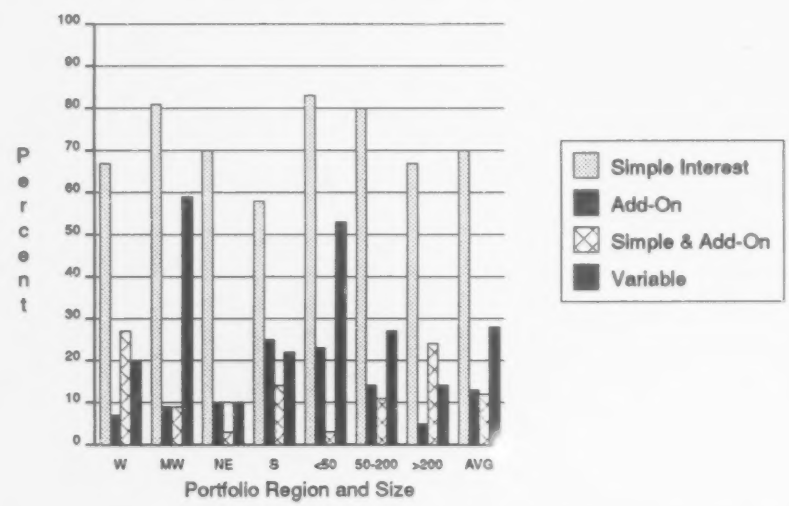


Table 81



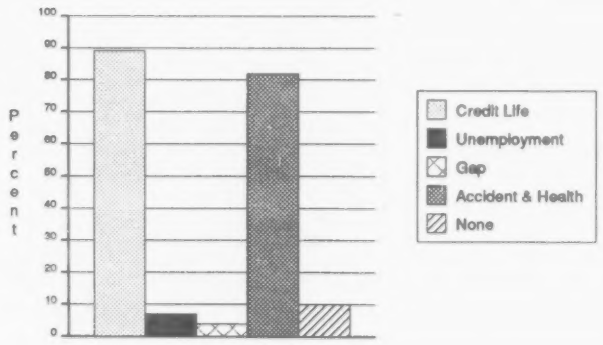
There was a substantial amount of agreement across size and region regarding direct financing methods, as simple interest was by far the most commonly used. Use of add-on by itself was reported by only 5% of respondents. Variable rate financing was offered

by 31% of total respondents, and 50% of those with smaller portfolios. Over 50% of institutions from the Midwest reported offering variable rate financing. For indirect financing, simple interest was also the most common, but many institutions also utilized simple interest and add-on, add-on, and variable rate. The larger institutions were more likely to offer simple interest and add-on, while the smaller ones were more likely to offer add-on and variable rate. Midwestern institutions again were more likely to offer variable rate financing. Clearly, the financing methods utilized in direct lending differ substantially from those in indirect.

Most lending institutions offered financing for various types of insurance in addition to the automobile loan, as shown in Table 82:

Table 82

Insurance Financing

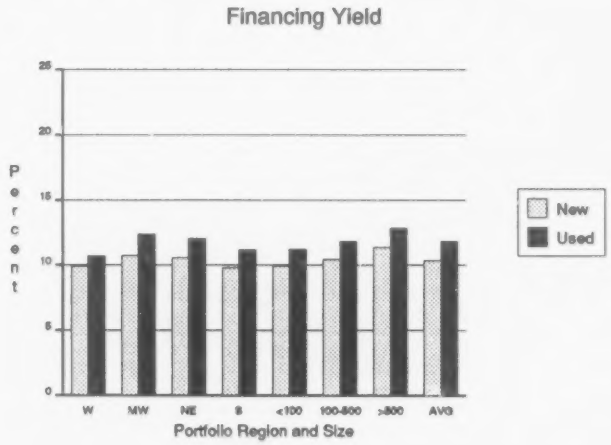


No major regional or size differences emerged in the offering of these services. Overall, the most common offerings were credit life and accident and health insurance.

Lending Activity

Respondents were asked to report their gross yield on new and used auto financing for 1990. Results are presented in Table 83:

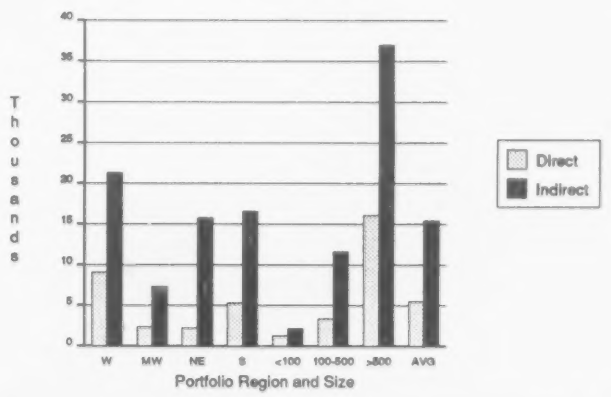
Table 83



The overall average was 10.36% for new cars and 11.82% for used cars. Larger institutions and those in the Midwest generated the greatest yields.

In 1990 the mix of direct and indirect lending activity remained relatively unchanged at approximately 25% direct. Table 84 presents profiles of lending activity for direct and indirect lending:

Table 84



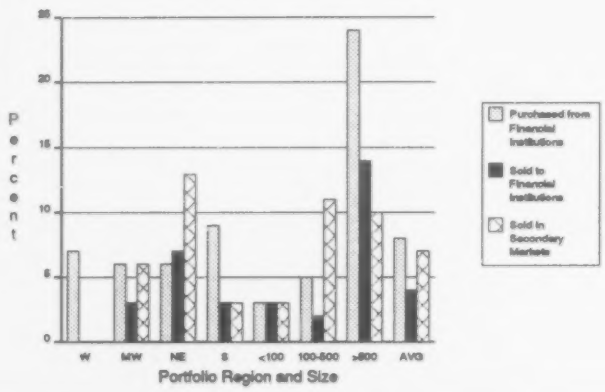
The overall average was 5,484 direct loans and 15,428 indirect loans. The West had the highest average number of both direct and indirect loans at 9,073 and 21,265, respectively. Institutions from the Northeast reported a far greater number of indirect loans

than direct loans at 15,776 and 2,195, respectively. The average loan originated in 1990 was $13,294 for new cars and $7,953 for used cars.

Portfolio activity can also take place in secondary markets. Respondents were asked if they had purchased from or sold portions of their automobile portfolios to other financial institution. Results are presented in Table 85:

Table 85

Portfolio Activity

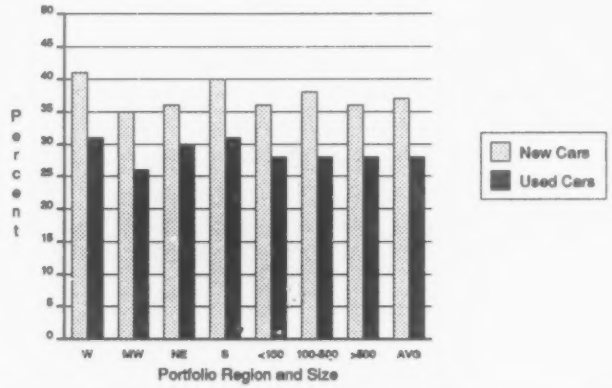


Overall, 8% of respondents reported that they had purchased loans from other financial institutions; 4% had sold loans to other financial institutions, and 7% had sold loans in the secondary markets. The majority of this activity took place within institutions with larger portfolios, with 24%, 14%, and 10% reporting this type of activity for each of the above categories, respectively. Of those who sold loans in the secondary market, 100% reported that they securitized the asset.

Average portfolio turnover was 37 months for new cars and 28 months for used cars in 1990, virtually unchanged from 1989. Several regional differences existed, as shown in Table 86:

Table 86

Average Portfolio Turnover

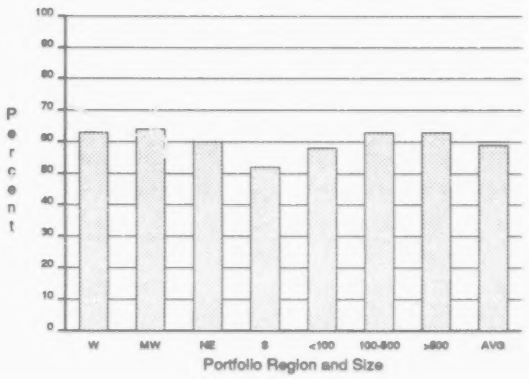


Respondents from the Western region had the longest average portfolio turnover, at 41 months for new cars and 31 months for used cars. In 1989, the overall average turnover for new cars was 32 months.

In 1990 a total of 59% of all loans paid out early, again unchanged from 1989. In 1988 this figure was 61%. The Midwest led with 64%, and the larger institutions reported a greater percentage of their loans paying out early. Table 87 presents a breakdown by region and size.

Table 87

Early Payout

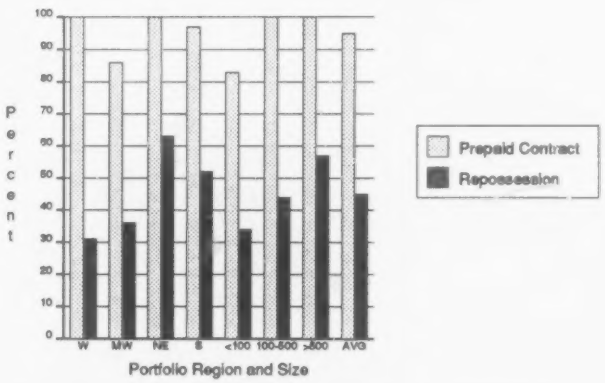


Dealer Relationships

Several questions were asked on this year's survey regarding dealer reserves. 88% of respondents calculated dealer reserves as a percentage of the amount financed, while 12% used a flat fee per loan. The amount paid up front averaged 85%. Respondents were asked if they charged back dealer reserves on prepaid contracts and in the event of a repossession. Results are presented in Table 88:

Table 88

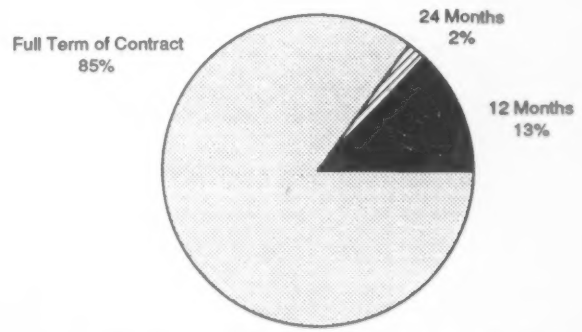
Dealer Reserve Charge Back



Overall, 95% charged back dealer reserves on a prepaid contract, with no regional or size differences apparent, while 45% charged back the full amount of dealer reserves following a repossession. These numbers remained unchanged from 1989. Respondents from the Northeast and South made more common use of repossession chargebacks, at 63% and 52%, respectively. Table 89 refers to prepaid contracts, and reflects responses to the period of time to which respondents charged back:

Table 89

Chargeback Time Period

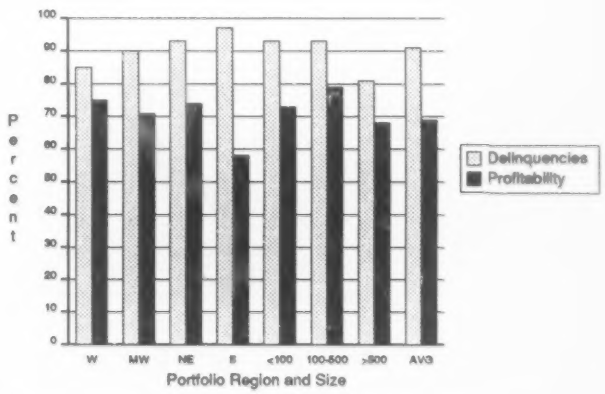


The vast majority of respondents charged back dealer reserves on a prepaid contract for the full term of the contract.

Respondents were asked if they reviewed their dealer relationships, and the results are presented in Table 90:

Table 90

Review Dealer Relationships



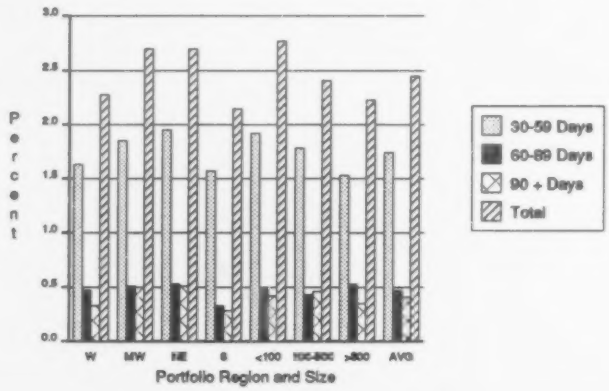
Overall, 91% of respondents reported that they reviewed dealer delinquencies, while 69% reported reviewing dealer profitability. Institutions from the South and those with the larger loan portfolios were less likely to review dealer profitablity, and larger institutions were also less likely to review dealer delinquencies.

Delinquencies

The average percentage of loan delinquencies as a percent of outstandings 31 to 59 days overdue for 1989 increased to 1.74% compared to 1.61% in 1989. The range was from 01% to 4.53%. For 60 to 89 days the average was .47% with a range of 0% to 3.80%, and .41% for over 90 days with a range of 0% to 2.16%. The figures were .38% for 60 to 89 days and .44% for over 90 days in 1989. Total delinquencies averaged 2.45% of outstandings in 1990. Delinquencies did vary somewhat by institution region and size, however, as presented in Table 91:

Table 91

Delinquencies-Percent of Outstandings

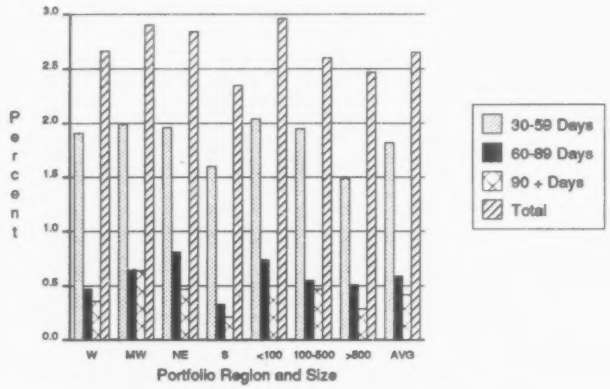


Those institutions from the Northeast had slightly higher delinquency rates, averaging 2.70% of outstandings, while the Southern region was the lowest at 2.15%.

Respondents were also asked to provide delinquency figures as a percentage of accounts. These figures largely mirror those above and are provided in Table 92:

Table 92

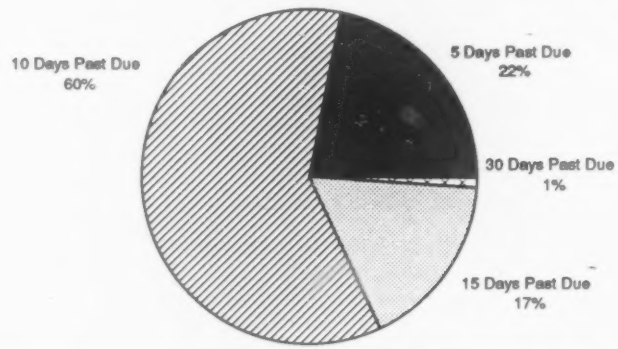
Delinquencies-Percent of Accounts



There is a substantial degree of variance in the amount of time that elapses between the time a payment is past due and when delinquency notices are first generated, as shown in Table 93:

Table 93

Generation of Delinquency Notices

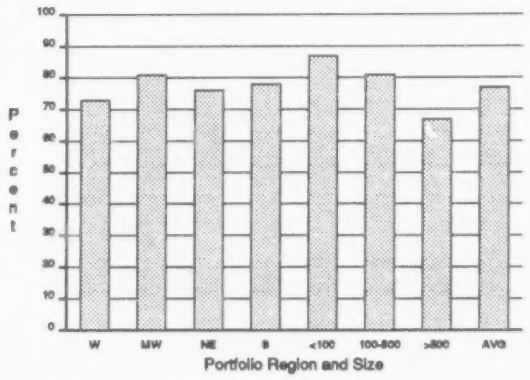


The vast majority of respondents generate delinquency notices when an account is 10 days past due, and all respond within 30 days or less.

As in 1989, 77% of respondents to the 1990 survey attempted to renegotiate delinquent loans that would otherwise be charged off. There are some regional and size differences in the use of this policy, as shown in Table 94:

Table 94

Renegotiate Delinquent Loans

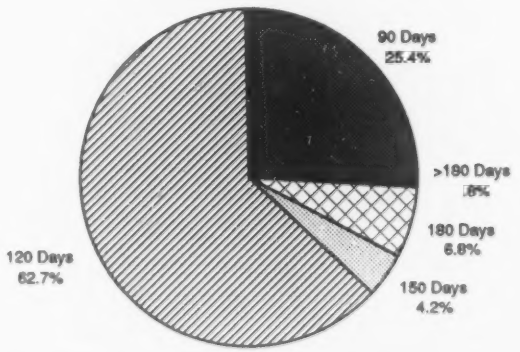


Institutions from the Midwest are most likely to renegotiate delinquencies, but as the institution's portfolio gets larger, they are much less likely to engage in this practice.

The most common active loan charge-off policy is 120 days, and the breakdown of normal charge-off policies is presented in Table 95:

Table 95

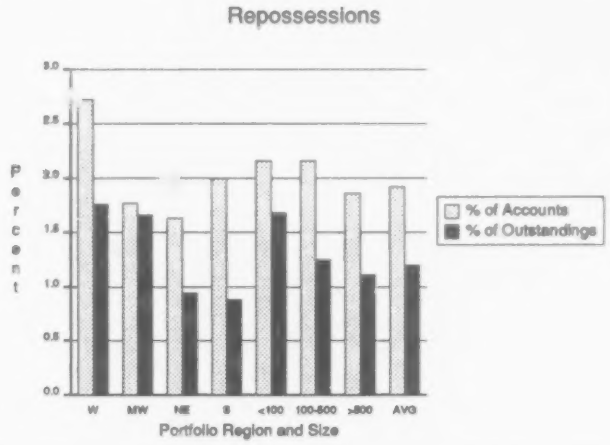
Active Loan Charge-Off Policy



Repossessions and Losses

The number of automobile repossessions appears to have varied slightly by region and size in 1990, but were higher than in 1989. Results are shown in Table 96:

Table 96

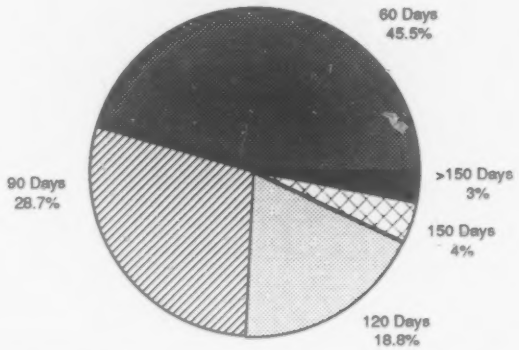


Repossessions averaged 1.92% of accounts and resulted in an average loss of 1.20% of outstandings, compared to 1.38% and .72%, respectively, in 1989. The ranges were from .0% to 5.41% of accounts and 0% to 3.8% of outstandings. Repossessions appeared to be highest in the Western region. An attempt was made to separate indirect from direct repossessions, but due to small sample size of those reporting only direct activity, no valid conclusions could be drawn. The maximum percentage of accounts reported repossessed by direct only lenders was 1.4%; while the maximum percentage of outstandings was 1.2%. It is very likely that the percentage of direct loan repossessions is lower than that for indirect loans. Future surveys will be designed to differentiate between the two. The average cost to perform a repossession was $297, while the average net credit loss per repossession was $3,794.

The most common repossession charge-off policy is 60 days, and the breakdown of normal charge-off policies is presented in Table 97:

Table 97

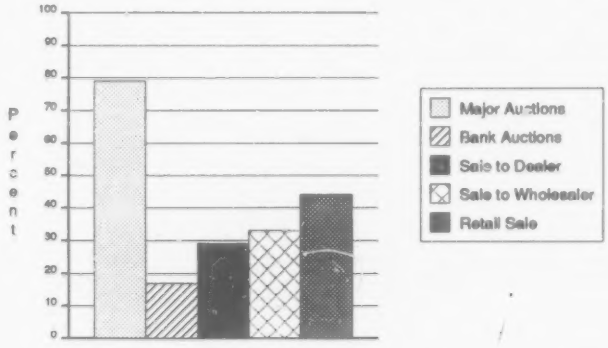
Repossession Charge-Off Policy



Repossessed automobiles must be disposed of in some manner, and there are a variety of ways of doing so. Several methods of disposal were utilized by many respondents, with major auctions being the most popular. Table 98 presents a profile of the use of the different methods:

Table 98

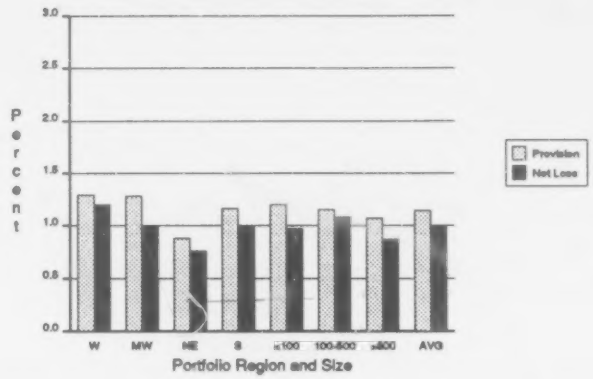
Redisposition of Repossessions



The average loss provision decreased slightly in 1990, while average actual losses increased, as shown in Table 99:

Table 99

Loss Provision and Loss

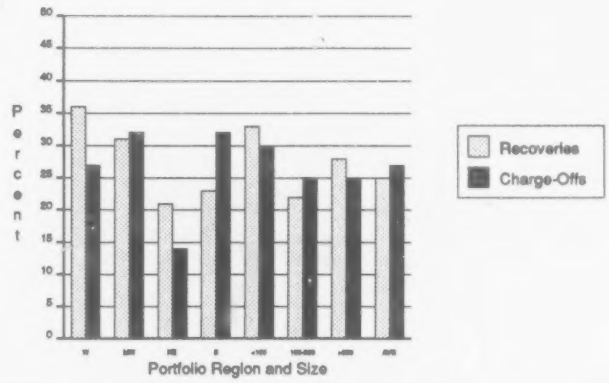


There were some significant region and size differences among respondents, as those in the Northeast and South and those with larger portfolios tended to have smaller loss provisions. The overall average loss provision was 1.14% of average net outstandings, compared to 1.26% in 1989. Reported losses averaged .98%, an increase of .16% from 1989.

The average annual percentage of gross recoveries to gross losses was 25%, and an average of 27% of gross charge-offs were the result of bankruptcies. A breakdown by region and size is presented in Table 100:

Table 100

Recoveries and Charge-Offs



Conclusion

Results from the past several surveys have shown a strong trend toward increasing the proportion of indirect loans held in the majority of portfolios. This year's results suggest that that trend may be stabilizing, as there has been little change in the ratio of direct to indirect loans for the past two years. There are certain advantages to direct loans from the lender's perpective; they can result in fewer losses and repossessions and there are no dealer reserves to reduce the yield of the loan. Commercial lenders have also gained market share in auto lending for two consecutive years. It would appear as if the captive lenders' aggressive approach has yielded unanticipated benefits for those in the auto lending business.

It will continue to be important in the future for banks to identify their primary customers, both individual consumers and automobile dealerships, and work at developing relationships with them. As the automobile financing industry continues to mature, efficiency and cost management as well as creativity and innovation are going to be the keys to future success. Some important information from this year's survey includes the following:

- FAX machines are the tool of choice for dealer relationships.
- Average and maximum loan maturities remained stable in 1990.
- Loan approval rates remained stable in 1990.
- 49% of respondents offer better terms to current customers.
- Approval and booking rates are much higher for direct loans.
- Almost 60% of loans pay out early.
- Delinquencies and repossessions increased in 1990.
- Indirect loans again comprised 75% of loan activity.

Endnotes

1. Krystal Miller and Joseph White, "Bankers Put Brakes on Car Loans and Dealers Squeal," The Wall Street Journal, October 17, 1990, p. B1.

2. Charles Thomas, "Captive Finance Firms Reap Gains as Some Banks Drop Auto Loans," Automotive News, December 3, 1990, p. 1.

3. Ibid., p. 1.

4. Laura Clark, "Ford Credit Switches to Tiered Loans," Automotive News, December 10, 1990, p. 1.

5. Sam Zuckerman, "Banks Compelled to Make U-turn in Auto Finance," American Banker, April 26, 1990, p. 1.

6. Ellen Memmelaar, "Bank of America Aids Car Shoppers; Discount Program Designed to Boost Auto Loans," American Banker, February 14, 1990, p. 8.

AUTOMOBILE FLOORPLANNING

According to NADA president Ray Green, one in five auto dealerships may be forced out of business in the next two years if car and truck sales remain weak.[1] In 1990 the average dealer had a profit margin of just 1% which is expected to shrink even more this next year as costs continue to rise. For many dealerships, the high price of urban real estate makes other options appear more lucrative than space-intensive auto retailing.

As sales staggered this year, the Big Three automobile companies reevaluated their incentive programs and began to make changes. In 1990 a new pact was negotiated between GM and its dealers which is much different from the 1985 agreement it replaces, and according to the NADA "...is a major step toward improving relations between GM and its dealers."[2] Ford changed its policy late in the year to allow for dealer incentive programs in place of the customer incentive program it was previously using.[3]

Retail new-car dealers are less satisfied, anxious about profits, and less willing to be manipulated by manufacturers than they were in the 1980's, according to a dealer survey by J.D. Power and Associates.[4] At the same time they are having to cut costs in order to survive in the 1990's. One way some dealers are reacting is to get big, to become mega-dealers through the acquisition of a number of smaller dealerships. This increased size can give them added leverage when negotiating with both manufacturers and financial institutions, but is also accompanied by increased risk. Most dealers cut overhead, trimmed staff, and decreased inventory in 1990. However, they were split on the question of advertising spending. Some increased spending in this category while others have had no choice but to reduce it.

Many banks are severing relationships with dealers, preferring direct lending over indirect lending. In addition, many dealers complained the major problem with selling a car was getting a lending unit to finance it. Thus dealers are blaming the banks for escalating the problem of low car sales.

Floorplanning

Automobile wholesale financing activities comprise a major portion of the lending portfolio for many financial institutions. In 1990 floorplanning services were offered by 84 respondents, or 67% of the total sample, up 6% from 1989. The average length of time in floorplanning is 27 years, with a range from 2 to 55 years, and 90% of respondents have been involved in floorplanning for over ten years. As previously mentioned, portfolio size rather than asset size was used to divide the respondents in this year's survey. The measure used was the total dollar outstandings. The cutoff points were $50 million and $200 million, with the smaller portfolios comprising 39% of the sample, the medium sized portfolios 28%, and the larger portfolios 33%. By region, 14% of respondents were from the West, 25% from the Midwest, 29% from the Northeast, and 32% from the South. Floorplanning operations are organized in a variety of ways, as shown in Table 101:

Table 101

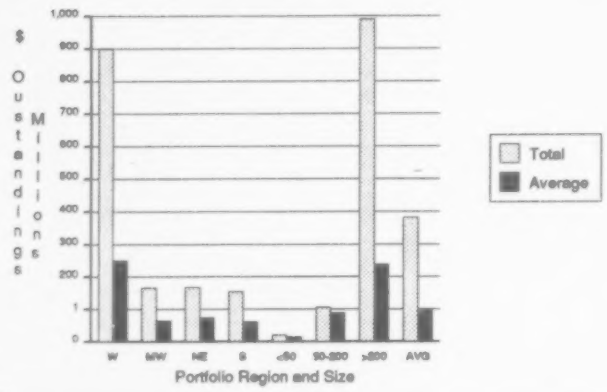
Floorplanning Organization

The floorplanning activity is part of the retail lending department for 58.3% of respondents; 21.4% include it in a wholesale lending department, and 20.2% include it as part of a consolidated lending department.

Although almost twice as many respondents floorplan new cars than used cars, it may be useful to examine the size of the average floorplanning portfolio, presented in Table 102:

Table 102

Total Floorplan Portfolio



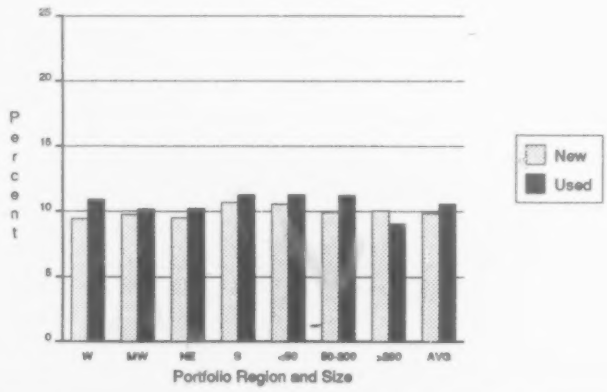
The overall average portfolio was $382 million for new cars and $101 million for used cars. Institutions from the West had by far the largest portfolios in both categories, at $899 million and $249 million, respectively.

Performance

Instead of using the ROA and ROE measures used to assess performance in the 1989 survey, gross yield was used in 1990 for comparison purposes. The response rate to these items was very high, and results are presented in Table 103:

Table 103

Floorplan Gross Yield

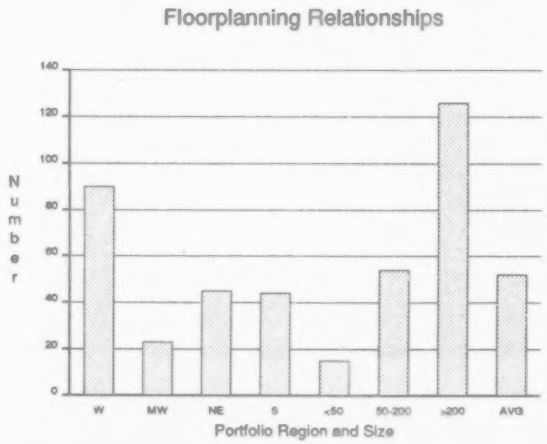


The overall average gross yield for new cars was 9.85%, for used cars 10.58%. Smaller institutions and those from the Southern region reported the highest gross yield for both new and used cars. Overall responses ranged from 4% to 14.6% for new cars and 1.5% to 12.5% for used cars.

Dealer Relationships

In 1990 the captive arms of the major auto manufacturers continued to be a strong force in floorplanning. The captives have some substantial advantages in terms of the financial packages they can offer to franchised dealerships, and they also can apply leverage through computerization and allotment of automobiles. Many lending institutions are doing quite well in the face of this competition, however. A total of 95% of respondents floorplan through franchised dealerships with little variance across portfolio size and region, while 55% floorplan through used car dealers. All floorplan 100% of dealer invoice. Table 104 provides a breakdown of the total number of dealerships with whom respondents conducted business in 1990:

Table 104

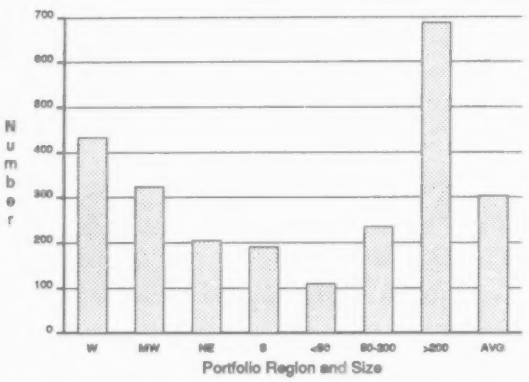


The overall average was 52 dealerships, up from 26 in 1989. Institutions from the West had over twice as many dealerships in their average portfolios than any other region. It is clear from the responses that there is a direct relationship between portfolio size and the number of dealer relationships. Respondents reported an average of 15 manufacturers in their portfolios.

To gain a perspective on market penetration, respondents were also asked to report the number of retail relationships represented in their portfolios, presented in Table 105:

Table 105

Retail Relationships

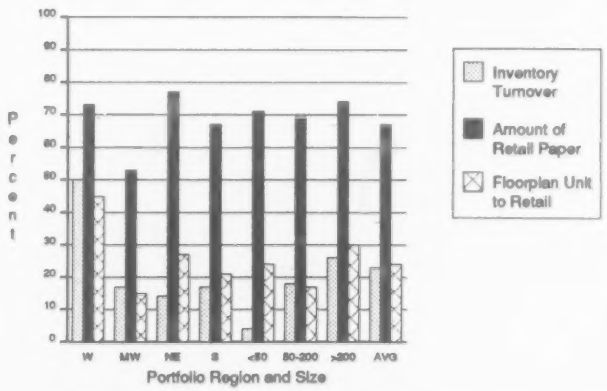


The overall average was 303, with the Western region again reporting the largest number at 434. Most respondents had over four times as many retail relationships as floorplanning relationships.

One objective that lenders may have when establishing floorplanning relationships is to convert floorplan loans into retail loans. There are several aspects of dealer relationships that influence and reflect its quality that were investigated in this year's survey. These are presented in Table 106 and will be discussed below:

Table 106

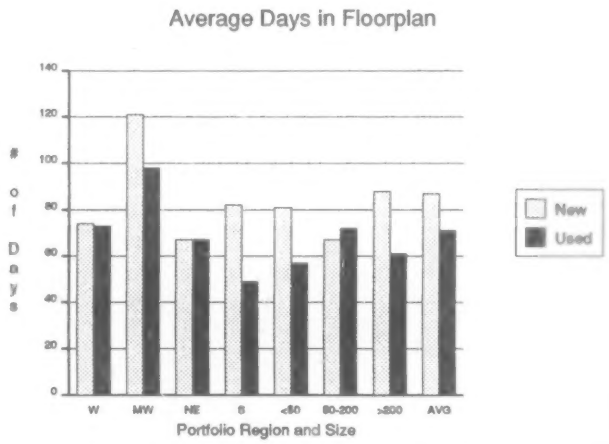
Dealer Relationships



The first column in Table 106 reflects the percentage of respondents who consider inventory turnover as a factor in pricing for wholesale dealerships. The overall average was 23%, but there was significant variance, from a high in the West of 50% to a low in the Northeast of 14%. Institutions with smaller portfolios do not appear to use this policy very often, shown by a response rate of 4%. Column two shows the percentage of respondents who consider the amount of retail paper sent by a dealership in pricing decisions. The overall average was 67%, with the Midwest low at 53%. Column three reveals the percentage of floorplanned units that became retail loans, which averaged 24%, with the Western region leading the way at 45%.

The average number of days that an automobile remains in the floorplan may impact loan interest rates and lending institution profit. The average is presented in Table 107 for both new and used cars:

Table 107



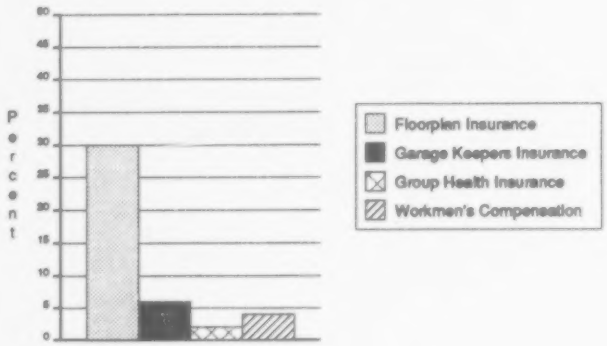
The range for new cars was from 31 to 270 days, while for used cars it was 32 to 90 days. The overall average for new cars was 87 days compared to 78 in 1989, with 71 days for used cars compared to 74 days in 1989. The Midwest had the highest average for new cars at over 121 days, and also led in used car average at 98 days. There was no apparent relationship between portfolio size and average days in the portfolio.

Floorplan Protection

Many lenders offer various forms of floorplan insurance to dealerships, as shown in Table 108:

Table 108

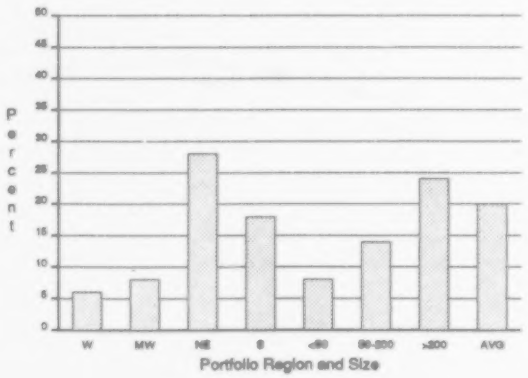
Insurance Offerings



An average of 20% of dealerships took advantage of some form of insurance offering, with a range from 1% to 50%. There were substantial differences across region and size, however, as shown in Table 109:

Table 109

Dealer Use of Insurance Plans



There are a number of ways in which dealers protect their floorplanning portfolios, and these are usually in the form of agreements and guarantees. Tables 110 through115 illustrate the types of protection required when financing:

Table 110

Repurchase Agreement

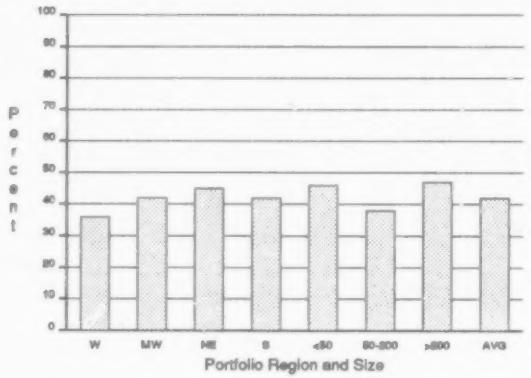


Table 111

Dealer Reserve Agreement

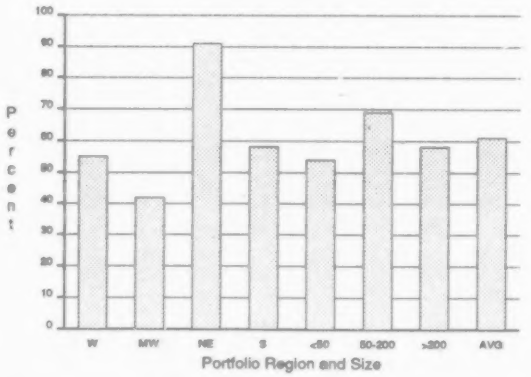


Table 112

Manufacturers Repurchase Agreement

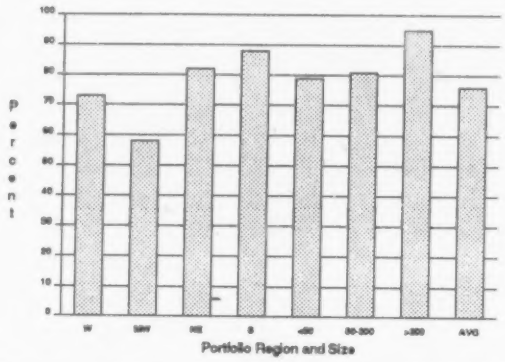


Table 113

Lenders Indemnity Insurance

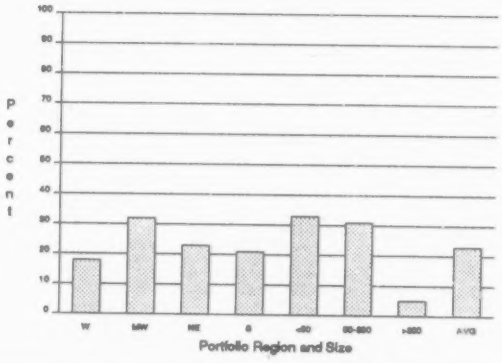


Table 114

Lender Holds MCO

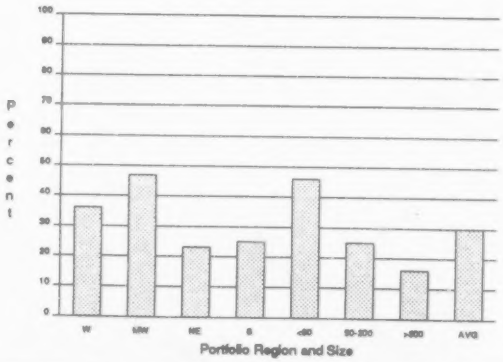
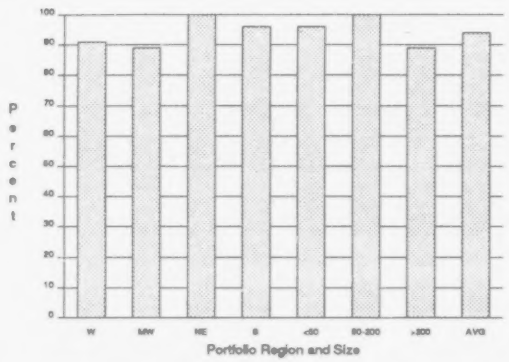


Table 115

Personal Individual Guarantee

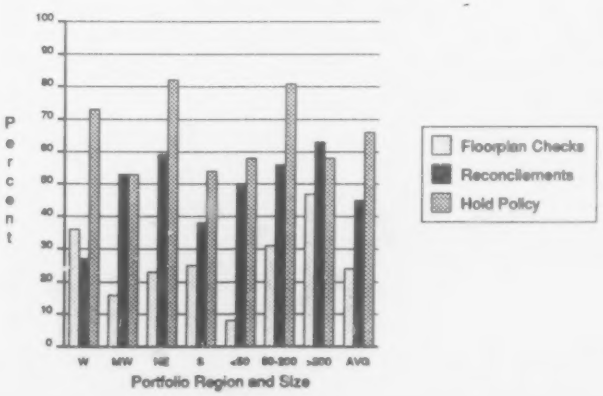


The personal individual guarantee and manufacturer's repurchase agreement were the most common, required by 94% and 76% of respondents, respectively. Lenders indemnity insurance was required least often, with an average of 23%. There were significant regional and size differences, however, as shown in the tables above. Overall, the percentages remained quite consistent with those reported for 1989. In addition to the above requirements, 96% of respondents require an inspection and verification of floorplanned units by in-house personnel while 11% also use or exclusively use a service company.

In this year's survey, respondents were requested to provide more detail in describing their floorplanning policies. Questions were asked regarding floorplan checks, reconcilements and putting a dealer on finance hold. The results of these questions is presented in Table 116:

Table 116

Dealer Security Policy



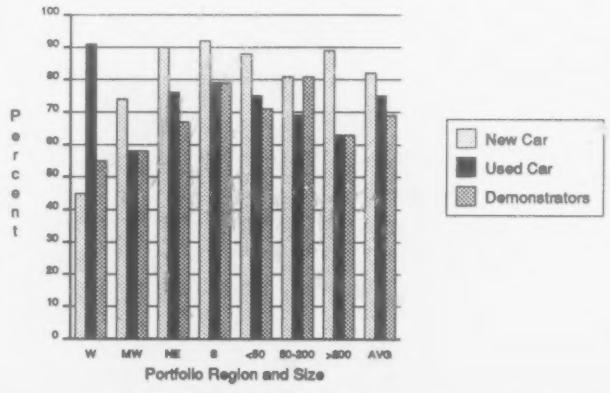
Overall, 24% of respondents required flooplan checks more than once a month, and institutions with larger portfolios were much more likely to utilize this policy. Reconcilements on floorpian checks against factory statements were performed by an average of 45% of respondents, with those in the West least likely to use this policy. 66% of respondents reported that they did have a policy to place dealers on finance hold.

Curtailment

Curtailment may be one of the most complex relationships between a lender and a dealership, and the curtailment terms varied tremendously across respondents. Table 117 presents a profile of those who used curtailment for new and used cars and demonstrators.

Table 117

Curtailment



Overall, 82% of respondents used curtailment for new cars, 75% for used cars, and 67% for demonstrators. These percentages increased approximately 10% from 1989. No pattern of consistent practice emerged across region or size.

Although curtailment terms varied considerably, summary statistics were compiled to demonstrate the major trends in curtailment terms, and are presented in Tables 118, 119, and 120:

Table 118

New Car Curtailment

Curtailment begins after 10.5 months

after which 15.5% of balance must be

paid each 2.9 months, with balance

to be paid off no later than 14.2 months.

Table 119

Used Car Curtailment

Curtailment begins after 3.5 months

after which 29.7% of balance must be

paid each 2.2 months, with balance

to be paid off no later than 7.2 months.

Table 120

Demonstrators

After 5.0 months or 5500 miles.

After which 17.3% of balance must be

paid each 2.0 months, with the balance

to be paid off no later than 2.2 months.

Curtailment is based on date the

vehicle is put into the floorplan by 70%

of respondents while 30% base curtailment

on model year.

Conclusion

For the average dealership, indirect lending comprises approximately 75% of the financing portfolio. The typical financial institution conducts retail business with approximately six times as many dealerships than those with whom they conduct floorplanning business. This information suggests that developing and maintaining strong relationships with high quality, high volume dealerships will be very important in determining the long-term success of lending institutions. Offering creative financing packages, bundling of products, and gaining a greater understanding of how automobile dealerships are run may be useful in developing these important relationships.

Automobile floorplanning not only offers the lender the opportunity to generate a large volume of secured loans, but also offers the opportunity to strengthen relationships with dealerships. Some interesting information from this year's survey includes the following:

- Floorplanning gross yield averaged 9.85% for new cars in 1990.
- 24% of banks require floorplan checks more than once monthly.
- 96% of respondents do business with franchised dealers.
- 24% of wholesale loans became retail loans in 1990.
- 66% of lenders have a policy to put dealers on finance hold.
- Approximately 50% of respondents floorplan used cars.
- New cars remain in the floorplan an average of 87 days.

Endnotes

1. "Green Sees 20% Failure Among Dealers," Automotive News, February 4, 1991, p. 11.

2. Phil Frame, "Dealers Win Some, Lose Some in New GM Sales Pact," Automotive News, October 29, 1990, p. 3.

3. Laura Clark, "Ford Switches to Dealer Rebates," Automotive News, December 10, 1990, p. 1.

4. Kathy Johnson, "Dealers: They're still very loyal to the franchise, says survey, but they're more critical," Automotive News, February 12, 1990, p. 1.

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CONSUMER BANKERS ASSOCIATION

CENTER FOR FINANCIAL SERVICES STUDIES
McINTIRE SCHOOL OF COMMERCE
UNIVERSITY OF VIRGINIA

AUTOMOBILE FINANCING SURVEY

This questionnaire is an important part of an ongoing program to track trends and provide insights into what has occurred in the auto financing areas for banking over the past few years. Your personal and prompt response is appreciated. If you do not have the specific data that fit the question, **please give the best and most appropriate information available.**

All questions, unless otherwise stated, relate to 1990 financing activity.

The survey is in 3 sections: (1)Leasing; (2)Financing; (3)Dealer Floorplanning. The survey is color coded so that sections may be distributed to those best qualified to complete each section. Please return the completed sections in the enclosed self-addressed envelope. Questions on the survey may be directed to Fritz Elmendorf, Consumer Bankers Association at (703) 276-1750.

When recording information, please use the following format:

Percentages: 50.0% is 50 percent, .50% is 1/2 of 1 percent.

Dollars are denoted by $ Bill , Mill , Thou , Hund .

For your participation in the completion of this questionnaire, a copy of the Executive Summary will be sent to you. The results of this study will be reported only in aggregate and your data will be held in confidence by the researchers at the University of Virginia. Thank you for your cooperation.

Name of Institution: _____

Address: _____

_____

_____

Individual Completing This Section:

Name: _____

Telephone: _____

Please return completed surveys **by January 31, 1990** to:

Professor Timothy R. Hinkin
Center for Financial Services Studies
McIntire School of Commerce
University of Virginia
Charlottesville, VA 22903

BACKGROUND

1. What type of financial institution do you represent? (check one)

___ Holding Company (Single BHC)
___ Multi-bank Holding Company
___ Independent Bank
___ Other (specify)_____
___ Savings and Loans
___ Credit Union
___ Mutual Savings Bank

2. Financial institution's asset size? $ _____,_____,_____,_____

3. Financial institution's year end return on assets (ROA)? _____%

4. Financial institution's year end return on equity (ROE)? _____%

5. Which of the following best describes the current geographic distribution of your automobile financing business? (check one)

___ Single market/local (One city, county, or metro)
___ Concentrated state regional (One region of the state)
___ Diverse state regional (Several regions within a state)
___ Statewide (Many markets covering most of a state)
___ Interstate (Markets covering areas beyond state boundaries)

6. In what region does your financial institution conduct auto business? (check all that apply)

___ West (AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY)
___ Midwest (IA, IL, IN, KS, KY, MI, MN, MO, ND, NE, OH, SD, WI, WV)
___ Northeast (CT, DE, MA, MD, ME, NH, NJ, NY, PA, RI, VT)
___ Southeast (AL, AR, DC, FL, GA, LA, MS, NC, OK, SC, TN, TX, VA)

7. With respect to the data presented in this survey, how many separate operating units are represented in the following categories? (For example, if a bank offered lending services in 23 branches, it would list 1 bank, 23 branches, and 24 total.)

Number

___ Banks
___ Branches
___ Subsidiaries
___ Other (specify)_____
___ Total

8. What was your institution's total marketing budget for promotion, advertising, direct mail, etc. (exclusive of salaries)?

$ _____,_____,_____,_____

9. What is your institution's total lending portfolio? $ _____,_____,_____,_____

10. What is your institution's total leasing portfolio? $ _____,_____,_____,_____

11. What is your institution's total floorplanning portfolio? $ _____,_____,_____,_____

12. Major changes planned in auto portfolio for the coming year:

Planning to drop:

____ Leasing program
____ Lending program
____ Floorplanning

Planning to begin:

____ Leasing program
____ Lending program
____ Floorplanning

No changes planned:

____ Leasing program
____ Lending program
____ Floorplanning

Bank/Institution:_____

Individual Completing This Section:_____

Telephone:_____

CBA AUTO FINANCING SURVEY – AS OF DECEMBER 31, 1990

SECTION I – AUTOMOBILE LEASING

The following questions relate to your automobile leasing activities as of year end. Please fill out each question as completely and accurately as possible. If you do not have the specific data that fit the question, **please give the best and most appropriate information available.**

When recording information, please use the following format:

Percentages: 50.0% is 50 percent, .50% is 1/2 of 1 percent.

Dollars are denoted by $ Bill , Mill , Thou , Hund .

All questions, unless otherwise stated, relate to 1990 leasing activity.

1. How long has your company been involved in automobile leasing? _____ Years

2. Does your institution operate a separate auto leasing department/division, or is it organized under a larger unit such as consumer/retail function?

   _____ Separate auto leasing department/division
   _____ Combined auto lending and leasing department/division
   _____ The activity is organizationally not separated, but is consolidated under a (specify)_____

3. Please describe your institution's collection activity.

   _____ Collections is a separate and independent unit.
   _____ Auto leasing has its own collections unit.
   _____ Auto leasing and lending have a combined collections unit.
   _____ Collections is consolidated under a larger unit (e.g., consumer/retail).
   _____ Other (specify) _____

4. What kinds of leasing arrangements does your institution offer?
DIRECT--direct relationship with customer and no dealer involvement.
INDIRECT--customer works through dealer relationship until transactions completed by dealer.

Only Direct	Only Indirect	Direct & Indirect
_____	_____	_____

5. Average funding spread per lease (yield-cost of funds)? _____ %

Average gross margin per lease (yield-cost of funds+fees)? _____ %

6. What was the total marketing budget for promotion, advertising, direct mail, etc. for the auto leasing department/division (exclusive of salaries)?

$_____, _____, _____, _____

7. Do you have an automated credit processing system? _____ Yes _____ No

If Yes: Does your credit processing system include the following (check all that apply):

_____ Direct computer link with dealers (not FAX)
_____ Automated credit bureau interface
_____ Credit scoring (for analyzing data)
_____ Queuing (for preference or ranking)
_____ Document preparation (for loan documents)
_____ Letter preparation
_____ Collections interface
_____ Mainframe interface

8. Have you presently automated or do you plan to automate your relationship with the dealer over the next two years?

_____ Presently automated with computer system
_____ Presently using facsimile system
_____ Plan to automate
_____ Do not plan to automate
_____ Do not know

9. From application to lease approval, what was the average processing time?

Direct	Indirect
_____ Less than 2 hours	_____ Less than 2 hours
_____ 2-4 hours	_____ 2-4 hours
_____ 4-8 hours	_____ 4-8 hours
_____ More than 8 hours	_____ More than 8 hours

10. What criteria are you currently using for the automobile lease approval decisions? (Check all that apply)

_____ Applicant's equity (Most common ratio? _____)
_____ Applicant's ability to repay
_____ Judgmental
_____ Current/Past credit history
_____ Credit scoring system (based on historical profile composition)
_____ Other :_____

11. Does your institution do business with lease brokers?

_____ Yes _____% of Portfolio
_____ No

12. What type of billing method to you use?

_____% Coupon Books
_____% Monthly Billing

13. This past year how many lease applications were submitted, approved, and booked?

All Leasing	Number of Applications	Number Approved	Number Booked
Total	_____	_____	_____

14. What was the **average** term of new auto leases last year?

	Open-end	Closed-end
Direct	_____ Months	_____ Months
Indirect	_____ Months	_____ Months

15. What was the **maximum** term of new auto leases last year?

	Open-end	Closed-end
Direct	_____ Months	_____ Months
Indirect	_____ Months	_____ Months

16. What is the **average** turnover for total portfolio? (The period of time from lease inception to payoff) for your leases?

New cars _____ months
Used cars _____ months
Total portfolio _____ months

17. Is the lease acquisition fee for your institution:

_____ Flat Fee $_____
_____ Percent of acquisition cost _____%
_____ Currently have no acquisition fee

18. The lease security deposit for your institution is:

Equal to _____ month's rent or flat dollar amount of $_____.

19. Do you have a lease with capital cost disclosed? _____ Yes _____ No

20. What is the **maximum** amount of capitalized costs advanced as a percentage of manufacturers suggested retail price (including all fees)?

_____% Domestic autos _____% Import autos

21. What is the **average actual** amount of capitalized costs advanced as a percentage of manufacturers suggested retail price (including all fees)?

_____% Domestic autos _____% Import autos

22. Do you allow fees to be capitalized? _____ Yes _____ No

If yes, which of the following fees do you allow to be capitalized?

_____ License fees
_____ Personal property tax
_____ Registration fee
_____ Sales tax
_____ Warranty packages
_____ Other (specify)_____

23. What insurance products are offered by your bank as part of the lease arrangement?

_____ Credit life insurance
_____ Lease life insurance
_____ Unemployment Insurance
_____ Gap insurance
_____ Accident and health insurance
_____ None of the above
_____ Other (specify)_____

24. Do you have a cap on the amount of aftersell on a contract? _____ Yes _____ No

25. What is the primary method of setting residual values on your leases?

_____ Use ALG, Black Book, Kelly, or similar publication
_____ Set own values independently
_____ Other (specify)_____

26. What percentage of your leases have residual values above guide book limits?

_____%

27. Do you insure residual value? _____ Yes _____ No

28. Do you usually buy residual value insurance with deductibles?

_____ Yes _____ No

29. What was the average premium per lease of residual value insurance as a percentage of capitalized cost?

With deductible _____%
Without deductible _____%

30. How many claims were submitted last year under residual value insurance policies and what was the average claim amount?

Number of Claims	% of Portfolio	Average Claim Amount
_____	_____%	$_____

31. How many leases and their dollar volume reached scheduled termination last year where residual value insurance has applied?

Number of Leases	% of Portfolio	Dollar Volume
_____	_____%	$_____

32. For 60-month leases, what is the average residual value as a % of MSRP?

_____% Cap cost under $15,000
_____% Cap cost $15,000 to $25,0000
_____% Cap cost over $25,000
_____% Overall average

33. What percentage of full term leases are purchased at the end of the lease? _____%

34. What is your average gain $_____ or loss $_____ upon sale of full term leases?

35. As of year end, what were your company's outstandings for all automobile leases?

Closed-end Leases

	Outstanding # of Leases	Lease Contract Receivables	Residual Value
New Cars	_____	$_____,_____,_____,_____	$_____,_____,_____,_____
Used Cars	_____	$_____,_____,_____,_____	$_____,_____,_____,_____
Total	_____	$_____,_____,_____,_____	$_____,_____,_____,_____

Open-end Leases

	Outstanding # of Leases	Lease Contract Receivables	Residual Value
New Cars	_____	$_____,_____,_____,_____	$_____,_____,_____,_____
Used Cars	_____	$_____,_____,_____,_____	$_____,_____,_____,_____
Total	_____	$_____,_____,_____,_____	$_____,_____,_____,_____

36. Please indicate the number, as well as dollar volumes, of all leases made in the current year versus the previous year.

Closed-end Leases

Number of Leases Booked

	1989	1990
New Cars	#_____	#_____
Used Cars	#_____	#_____
Total	#_____	#_____

Capital Cost Amount of Leases Booked

	1989	1990
New Cars	$_____	$_____
Used Cars	$_____	$_____
Total	$_____	$_____

Open-end Leases

Number of Leases Booked

	1989	1990
New Cars	#_____	#_____
Used Cars	#_____	#_____
Total	#_____	#_____

Capital Cost Amount of Leases Booked

	1989	1990
New Cars	$_____	$_____
Used Cars	$_____	$_____
Total	$_____	$_____

37. Please check the sources from which you within the past year purchased indirect paper (Do not include portfolios purchased from other financial institutions.)

_____ Automobile dealers
_____ Independent lessors
_____ Other sources (specify) _____

38. What percentage of all leases terminated early (not including credit losses)? _____%

39. What percentage of all leases reached term? _____%

40. What is the average liquidation expense per full-term unit not including gain or loss on sale?

$_____

41. What percentage of new leases (current year) terminated before the first year?

_____%

42. Does your institution allow extensions of the existing lease contracts beyond the original terms of the lease?

_____ Yes _____ No

43. For leases that reach term, what percentage of leases are:

_____% Returned to the lessor
_____% Extended month-to-month
_____% Renegotiated to a new lease
_____% Converted into a new lease
_____% Paid off for cash

44. Do you allow third party assumptions of the original contract?

_____ Yes If yes, what percentage were new lease contracts? _____%
_____ No

45. Do you apply a termination fee on early terminations?

_____ Yes If yes, what is the amount? $_____
_____ No

46. Do you apply an end of term fee at maturity?

_____ Yes If yes, what is the amount? $_____
_____ No

47. What are your allowable miles per year? _____ miles per year

48. In cents per mile what is the charge for excess mileage?

If over _____ miles, then _____ cents per mile.

49. As of year end, how many and what percentage of your lease accounts were past due/delinquent for the various categories below? What was the total dollar amount and percentage of past dues for each category?

Time Past Due	Number of Accounts	Percent of Accounts	Total Dollar Amount Past Due	Percent of Total Outstandings
31-59 days	_____	_____%	$_____,_____,_____,_____	_____%
60-89 days	_____	_____%	$_____,_____,_____,_____	_____%
90 days plus	_____	_____%	$_____,_____,_____,_____	_____%
Total	_____	_____%	$_____,_____,_____,_____	_____%

50. What has been the total number and percentage of accounts repossessed? What was the total dollar volume loss, and what was the loss as a percentage of outstandings?

All Leases	Total Number	Percent of Accounts	Total Dollar Volume Loss	Percent of Total Outstandings
Closed-end	_____	_____%	$_____,_____,_____,_____	_____%
Open-end	_____	_____%	$_____,_____,_____,_____	_____%
Total	_____	_____%	$_____,_____,_____,_____	_____%

51. What is the average net credit loss per repossession? $_____

52. What is the average cost to perform repossession per unit? $_____

53. Please check the following methods of redisposition of repossessed vehicles that apply to your institution.

_____ Public or private auction
_____ Sales to dealer
_____ Wholesaled out
_____ Retail sale
_____ Other (specify)_____

54. Please indicate the dollar volume and percentage in loss provision and actual loss in this year for both new and used car leases.

Loss Provision

All Leases	Dollar Volume	Average Net Percent Outstanding
Closed-end	$_____,_____,_____,_____	_____%
Open-end	$_____,_____,_____,_____	_____%
Total	$_____,_____,_____,_____	_____%

Actual Loss

All Leases	Dollar Volume	Average Net Percent Outstanding
Closed-end	$_____,_____,_____,_____	_____%
Open-end	$_____,_____,_____,_____	_____%
Total	$_____,_____,_____,_____	_____%

Net Loss After Recoveries

All Leases	Dollar Volume	Average Net Percent Outstanding
Closed-end	$_____,_____,_____,_____	_____%
Open-end	$_____,_____,_____,_____	_____%
Total	$_____,_____,_____,_____	_____%

56. What was your annual percentage of gross recoveries to gross losses? ($ gross recoveries/ $ gross losses)

_____%

57. What percentage of gross charge-offs result from bankruptcies? ($ bankruptcies/$ gross charge-offs)

_____%

Bank/Institution:_____

Individual Completing This Section:_____

Telephone:_____

CBA AUTO FINANCING SURVEY – AS OF DECEMBER 31, 1990

SECTION II – AUTOMOBILE FINANCING

The following questions relate to your automobile financing activities as of year end. Please fill out each question as completely and accurately as possible. If you do not have the specific data that fit the question, **please give the best and most appropriate information available**.

When recording information, please use the following format:

Percentages: 50.0% is 50 percent, .50% is 1/2 of 1 percent.

Dollars are denoted by $ Bill , Mill , Thou , Hund .

All questions, unless otherwise stated, relate to 1990 financing activity.

1. How long has your company been involved in automobile lending? _____ Years

2. Does your institution operate a separate auto lending department/division, or is it organized under a larger unit such as consumer/retail function?

   _____ Separate auto lending department/division
   _____ Combined auto lending and leasing department/division
   _____ The activity is organizationally not separated, but is consolidated under a (specify)_____

3. Please describe your institution's collection activity.

   _____ Collections is a separate and independent unit.
   _____ Auto lending has its own collections unit.
   _____ Auto leasing and lending have a combined collections unit.
   _____ Collections is consolidated under a larger unit (e.g., consumer/retail).
   _____ Other (specify) _____

4. What kinds of financing services does your institution offer?
DIRECT--direct relationship with borrower and no dealer involvement.
INDIRECT--borrower works through dealer relationship until transactions completed by dealer.

Only Direct	Only Indirect	Direct & Indirect
_____	_____	_____

5. What was your gross yield on new auto financing? _____ %

What was your gross yield on used auto financing? _____ %

6. What was the total marketing budget for promotion, advertising, direct mail, etc. for the auto financing department/division (exclusive of salaries)?

$_____,_____,_____,_____

7. Do you have an automated loan application processing system? _____ Yes _____ No

If yes: does your credit processing system include the following (check all that apply):

_____ Direct computer link with dealers (not FAX)
_____ Automated credit bureau interface
_____ Credit scoring (for analyzing data)
_____ Queuing (for preference or ranking)
_____ Document preparation (for loan documents)
_____ Letter preparation
_____ Collections interface
_____ Mainframe interface

8. Have you presently automated or do you plan to automate your relationship with the dealer?

_____ Presently automated with computer system
_____ Presently using facsimile system
_____ Plan to automate
_____ Do not plan to automate
_____ Do not know

9. From application to loan approval, what was the average processing time?

Direct	Indirect
_____ Less than 2 hours	_____ Less than 2 hours
_____ 2-4 hours	_____ 2-4 hours
_____ 4-8 hours	_____ 4-8 hours
_____ More than 8 hours	_____ More than 8 hours

10. What criteria are you currently using for the automobile loan approval decisions? (Check all that apply)

_____ Applicant's equity (Most common ratio? _____)
_____ Applicant's ability to repay
_____ Judgmental
_____ Current/Past credit history
_____ Credit scoring system (based on historical profile composition)
_____ Other :_____

11. What is your company's policy regarding required amount of cash as a percentage of total selling price?

_____% in cash

12. Do you offer different terms and conditions on loans to banking customers?

_____ Yes _____ No

13. What method of financing utilizes each of the following pricing/accounting methods in lending? (check all that apply)

	Direct	Indirect
Simple Interest	_____	_____
Add-On	_____	_____
Both simple and add-on	_____	_____
Variable (specify)_____	_____	_____

14. What is the average turnover (the period of time from loan inception to payoff) for your loans?

New cars _____ months
Used cars _____ months
Total portfolio _____ months

15. What percentage of total loans pay out early? _____%

16. This past year how many loan applications were submitted, approved, and booked?

All Lending	Number of Applications	Number Approved	Number Booked
Direct	_____	_____	_____
Indirect	_____	_____	_____
Total	_____	_____	_____

17. What is your present **maximum** maturity in months on auto loans?

Maximum Maturity

New Cars:	Direct	_____ Months	Used Cars:	Direct	_____ Months
	Indirect	_____ Months		Indirect	_____ Months

18. What was the **average** term of new auto loans made last year?

Average Term

New Cars:	Direct	_____ Months	Used Cars:	Direct	_____ Months
	Indirect	_____ Months		Indirect	_____ Months

19. What insurance products are offered by your bank as part of the loan arrangement?

_____ Credit life insurance
_____ Lease life insurance
_____ Unemployment Insurance
_____ Gap insurance
_____ Accident and health insurance
_____ None of the above
_____ Other (specify)_____

20. On what basis do you calculate your dealer reserves?

_____ Flat Fee
_____ Percent of amount financed

21. How do you pay your dealer reserves?

_____% Up front (_____% of retention)
_____% As earned
_____% Other _____

22. Do you charge back dealer reserves on a prepaid contract?

_____ Yes _____ No

If yes (to question 22), up to what period of time do you chargeback?

_____ 12 months
_____ 24 months
_____ Full term of contract

23. Do you charge back the full amount of dealer reserves in the event of a repossession?

_____ Yes _____ No

24. Do you review delinquencies by dealer relationship?

_____ Yes _____ No

25. Do you review profitability by dealer relationship?

_____ Yes _____ No

26. As of year-end what were your company's total **outstandings** for all direct and indirect automobile loans?

Direct Loans——Prior Year—1989

	Number of Accounts	Gross Outstandings
New Cars	_____	$_____,_____,_____,_____
Used Cars	_____	$_____,_____,_____,_____
Total	_____	$_____,_____,_____,_____

Direct Loans——Current Year——1990

	Number of Accounts	Gross Outstandings
New Cars	_____	$_____,_____,_____,_____
Used Cars	_____	$_____,_____,_____,_____
Total	_____	$_____,_____,_____,_____

Indirect Loans——Prior Year——1989

	Number of Accounts	Gross Outstandings
New Cars	_____	$_____,_____,_____,_____
Used Cars	_____	$_____,_____,_____,_____
Total	_____	$_____,_____,_____,_____

Indirect Loans——Current Year——1990

	Number of Accounts	Gross Outstandings
New Cars	_____	$_____,_____,_____,_____
Used Cars	_____	$_____,_____,_____,_____
Total	_____	$_____,_____,_____,_____

27. Indicate the number, as well as dollar volumes, of all direct and indirect loans made in the current year versus previous year.

Direct Loans

Number of Loans

	1989	1990
New Cars	#_____	#_____
Used Cars	#_____	#_____
Total	#_____	#_____

Gross Dollar Value

	1989	1990
New Cars	$_____	$_____
Used Cars	$_____	$_____
Total	$_____	$_____

Indirect Loans

Number of Loans

	1989	1990
New Cars	#_____	#_____
Used Cars	#_____	#_____
Total	#_____	#_____

Gross Dollar Value

	1989	1990
New Cars	$_____	$_____
Used Cars	$_____	$_____
Total	$_____	$_____

28. Did you buy portions of your Auto loan portfolio from other financial institutions (do not include dealers) in the past 12 months?

_____ Yes _____ No

29. Did you sell portions of your auto loan portfolio to other financial institutions in the past 12 months?

_____ Yes _____ No

30. Did your bank sell auto loans in any of the secondary markets in the past 12 months?

_____ Yes _____ No

If yes, did you:

_____ Securitize the asset?
_____ Complete a whole loan sale?

31. As of year end, how many and what percentage of your loan accounts were past due/delinquent for the various categories below? What were the total dollar amount and percentage of past dues for each category?

Time Past Due	Number of Accounts	Percent of Accounts	Total $ Amount Past Due	Percent of total Outstandings
31-59 days	_____	_____%	$_____,_____,_____,_____	_____%
60-89 days	_____	_____%	$_____,_____,_____,_____	_____%
90 days plus	_____	_____%	$_____,_____,_____,_____	_____%
Total	_____	_____%	$_____,_____,_____,_____	_____%

32. What has been the total number and percentage of accounts repossessed?
What was the total dollar volume loss, and what was the loss as a percentage of outstandings?

All Loans	Number	Percent of Accounts	Total Dollar Volume Loss	Percent of Outstandings
New Cars:				
Direct	_____	_____%	$_____,_____,_____,_____	_____%
Indirect	_____	_____%	$_____,_____,_____,_____	_____%

All Loans	Number	Percent of Accounts	Total Dollar Volume Loss	Percent of Outstandings
Used Cars:				
Direct	_____	_____%	$_____,_____,_____,_____	_____%
Indirect	_____	_____%	$_____,_____,_____,_____	
Total	_____	_____%	$_____,_____,_____,_____	_____%

33. What is the average net credit loss per repossession? $_____

34. What is the average cost to perform repossession per unit? $_____

35. At what day of delinquency are customer notices first generated?

_____ Payment past due
_____ 5 days past due
_____ 10 days past due
_____ 15 days past due
_____ 30 days past due
_____ 60 days past due

36. Does your bank attempt to renegotiate delinquent loans that would otherwise be charged off?

_____ Yes _____ No

37. What is your normal charge-off policy for active loans and for repossessions?

Active Loans (from oldest due date)	**Repossessions** (from date of repossession)
_____ 90 days	_____ 60 days
_____ 120 days	_____ 90 days
_____ 150 days	_____ 120 days
_____ 180 days	_____ 150 days
_____ over 180 days	_____ over 150 days

38. Which of the following methods of redisposition of repossessed vehicles does your institution employ? (Please check all that apply)

_____ Major auctions
_____ Bank auctions
_____ Sale to selling dealer
_____ Sale to wholesaler
_____ Retail Sale
_____ Other (specify)_____

39. Please indicate the dollar volume and percentage in loss provision and actual loss in this year for both new and used car loans.

Actual Loss Provision

All Loans	Dollar Volume	Average Net Percent Outstanding
New Cars		
Direct	$____,____,____,____	_____%
Indirect	$____,____,____,____	_____%
Used Cars	$____,____,____,____	_____%
Direct	$____,____,____,____	_____%
Indirect	$____,____,____,____	_____%
Total	$____,____,____,____	_____%

Net Loss After Recoveries

All Loans	Dollar Volume	Average Net Percent Outstanding
New Cars		
Direct	$____,____,____,____	_____%
Indirect	$____,____,____,____	_____%
Used Cars	$____,____,____,____	_____%
Direct	$____,____,____,____	_____%
Indirect	$____,____,____,____	_____%
Total	$____,____,____,____	_____%

40. What was the annual recovery rate as a percent of losses? _____%

41. What was the annual percentage of gross recoveries to gross losses? ($ gross recoveries/ $ gross losses)

_____%

42. What percentage of gross charge-offs result from bankruptcies? ($ bankruptcies/$ gross charge-offs)

_____%

Bank/Institution:_____

Individual Completing this Section: _____

Telephone:_____

CBA AUTO FINANCING SURVEY – AS OF DECEMBER 31, 1990

SECTION III – WHOLESALE

The following questions relate to your automobile wholesale financing activities (i.e., floorplanning) as of December 31. Please fill out each question as completely and accurately as possible. If you do not have the specific data that fit the question, **please give the best and most appropriate information available**.

When recording information, please use the following format:

Percentages: 50.0% is 50 percent, .50% is 1/2 of 1 percent.

Dollars are de[illegible]ed by $ Bill , Mill , Thou , Hund .

All questions, unless otherwise stated, relate to 1990 wholesale activity.

1. How many years has your company been involved in wholesale financing?

   ____ Years

2. This department is part of (check one):

   ____ Retail lending
   ____ Wholesale lending
   ____ Other, please specify_____

4. What was your gross yield on new auto floorplanning? _____%

   What was your gross yield on used auto floorplanning? _____%

5. How many dealerships (different addresses) were represented in your portfolio?

   _____ Floorplanning relationships

   _____ Retail relationships

6. How many manufacturers were represented in your new car portfolio?

_____ Manufacturers

7. Do you use a computer for processing wholesale and fleet units?

_____ Yes _____ No

8. For the past year, what were the **total** number of units and total dollar outstandings for automobile floorplanning?

	Number	Gross Outstandings
New Cars	_____	$_____,_____,_____,_____
Used Cars	_____	$_____,_____,_____,_____
Fleet	_____	$_____,_____,_____,_____
Lease	_____	$_____,_____,_____,_____
Other	_____	$_____,_____,_____,_____
Total	_____	$_____,_____,_____,_____

9. For the past year, what were the **average** number of units and average dollar outstandings for automobile floorplanning?

	Number	Average Outstandings
New Cars	_____	$_____,_____,_____,_____
Used Cars	_____	$_____,_____,_____,_____
Fleet	_____	$_____,_____,_____,_____
Lease	_____	$_____,_____,_____,_____
Other	_____	$_____,_____,_____,_____
Total	_____	$_____,_____,_____,_____

10. Does you company floorplan through:

a. New car franchise dealers? _____ Yes _____ No

b. Used car dealers? _____ Yes _____ No

11. Average number of days a new unit remains in floorplan. _____ Days

Average number of days a used unit remained in floorplan. _____ Days

12. What percentage of the manufacturer's new car invoice do you floor plan? _____%

13. What percentage of the floorplanned units as wholesale loans became retail loans with your company in the last year?

_____%

14. Which of the following do you offer? (check all that apply):

___ Floorplan insurance
___ Garage-keepers insurance
___ Group health insurance
___ Workman's compensation
___ Other (explain) _____

15. What percentage of dealerships use any of your insurance plans? _____%

16. Which of the following do you require when financing? (check all that apply):

___ Repurchase agreement?
___ Dealer reserve agreement?
___ Manufacturers repurchase agreements?
___ Lenders indemnity insurance?
___ Lender holds MCO (manufacturer certificate of origination)?
___ Personal individual guarantee?
___ Inspection and verification of floorplanned units by in-house personnel?
___ Inspection and verification of floorplanned units by service company?
___ Other(s) (specify)_____

17. Do you require floorplan checks more than once per month? _____ Yes _____ No

18. Do you perform reconcilements on floorplan checks against factory statement?

_____ Yes _____ No

19. Do you have a financing policy to put a dealer on finance hold? _____ Yes _____ No

20. a. What was your average dealer inventory turnover? _____%

b. Is inventory turnover a factor in pricing for your wholesale dealerships?

_____ Yes _____ No

c. Do you consider the amount of retail paper sent to you by a dealership in the development of pricing?

_____ Yes _____ No

21. a. Do you use curtailment?

____ Yes, for new cars.
____ Yes, for used cars.
____ Yes, for demonstrators.
____ No

b. New cars: Curtailment begins after _____ months.
Used cars: Curtailment begins after _____ months.
Demonstrators: Curtailment begins after _____ months or _____ miles.
_____ Based on date vehicle put on floor plan.
_____ Based on model year.

c. New cars: After that date (above), _____% of balance must be paid each _____ month.
Used cars: After that date (above), _____% of balance must be paid each _____ month.
Demonstrators: After that date (above), _____% of balance must be paid each _____ month.

d. New cars: Balance must be paid off no later than _____ months.
Used cars: Balance must be paid off no later than _____ months.
Demonstrators: Balance must be paid off no later than _____ months.

The Consumer Bankers Association was founded in 1919 to provide a progressive voice for the retail banking industry. CBA represents approximately 900 federally insured banks and thrift institutions that hold more than 80 percent of all consumer deposits and more than 70 percent of all consumer credit held by federally insured depository institutions.

CBA CONSUMER BANKERS ASSOCIATION

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